

FIXED ASSETS: NO LONGER USED JUST TO DEPRECIATE ASSETS

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Executive Overview

This presentation shows how standard functionality of FA automated a significant manual accounting process at Local Insight Media, LLC (LIM). The deferral and amortization method of accounting is used to record costs of goods sold expenses. The amortization was being calculated in Excel. A challenge is some costs were estimated costs at the time the amortization of the total costs should begin. The case study will focus on 2 areas. The first is the setup of FA. The second is process redesign enabling the use of mass additions, depreciation, and source line transfers to eliminate the need for the manual work in Excel.

Introduction

This presentation will demonstrate how standard functionality of Oracle FA automated a once cumbersome and error prone manual process at LIM. LIM uses the deferral and amortization method of accounting to recognize revenue and the related costs of goods sold expenses. This accounting method accumulates the cost of goods sold and amortizes them over the life of the print publication (such as yellow pages). Prior to this automated solution, the total costs and related monthly amortization was being tracked in Excel and manually entered into the general ledger with journal entries. A significant challenge was, at the time the book was published not all actual costs were available and thus some costs needed to be estimated in order to calculate “total costs”. Over the next few months as actual costs related to the estimated costs became “known”, the “total cost” needs to be adjusted by reversing the estimated costs and replacing it with the actual cost. This “true-up” of the costs are then amortized over the remaining life of the publication. Many times, these corrections may not be known for up to four months after the amortization start date.

The case study will focus on 2 areas. The first is the setup of Oracle FA. The second is process redesign enabling the use of mass additions, depreciation, and source line transfers to eliminate the need for the manual tracking in Excel. The solution must include a process for estimating costs at the distribution date, adjusting the costs as actual invoices are received, and adjusting the related remaining monthly amortization. Reoccurring journal entries were initially set up to amortize the costs and when the actual invoices were received the costs should be adjusted the reoccurring entry adjusted for the true-up. However, many times the true-up of the costs were not reflected in the Excel tracking sheet and thus the reoccurring journal entry was not changed. This then could create a misstatement in the P&L.

Local Insight Media, LLC (LIM) is a leading provider of print yellow pages and Internet-based local search services located in two countries and 48 states including the Greater Cincinnati area, Alaska, Hawaii and Puerto Rico. Local Insight Media services advertisers and consumers through six operating companies:

- CBD Media in the Cincinnati-Hamilton metropolitan area
- ACS Media in Alaska
- Local Insight Yellow Pages operating in 37 states
- Hawaii YP Media covering all the Hawaiian islands
- Axesa Servicios de Información in Puerto Rico
- Caribe Servicios de Información Dominicana in the Dominican Republic

These operating companies produce over 500 individual print publications.

Definitions

Publication- A printed book such as yellow pages, white pages, travel guides etc.

Canvass period – The period the sales team is selling the advertising for the publication. When the selling period is complete, the publication is sent to the printer to produce the final product.

Distribution – The delivery of the publication to the ultimate consumer after the publication is printed.

Substantially complete distribution – Month where 80% or more of the publications have been delivered to the ultimate consumer.

Life of publication - The time from which the first publication is distributed to when the replacement publication is expected to be distributed (generally one year for yellow pages).

Long-life of a publication – When the company decides to produce the next book later than the original scheduled time.

Short-life of a publication – When the company decides to produce the next book earlier than the original scheduled time.

Cost of goods sold (COGS) – All costs related to the sell of advertising, production and delivery of a publication (see list of specific costs capitalized below).

Revenue – Total advertising revenue association with a specific publication, this does not require any estimates as the total is known at the end of the canvass period.

Deferral and amortization method of accounting- Method of accounting when all costs associated with the production and delivery of a publication are deferred on the balance sheet until the distribution of that publication is substantially complete. At this time the advertising revenue and the related costs sitting on the balance sheet are amortized to the P&L over the expected life of the publication.

Overview

As an accounting policy all of the Local Insight Media, LLC operating companies are required to use the deferral and amortization method of accounting for recognizing revenue and the related cost of goods sold.

The deferral and amortization method of accounting requires that all costs (as listed below) be accumulated and deferred (i.e. capitalized) on the balance sheet. When the distribution of a publication is substantially complete the revenue and “total” costs are then amortized to the P&L using the straight line method over the life of the publication. The specific costs to produce and distribute a publication that will be deferred and amortized are as follows:

- Paper Costs of the publication
- Printing Costs of the publication
- Outside graphic costs of the publication
- Sales commissions paid
- Sales salaries and other incentives
- Agency fees for national accounts (3rd party commissions)
- Prepaid publication rights
- Distribution costs of the publication

At the time the distribution of a publication is substantially complete, some of the invoices related to the “total” cost of the publication have not yet been received and those costs need to be estimated. The estimates

are calculated and are entered in the AP system and coded to the COGS deferred costs clearing account. All invoices that have already been received at the time the distribution is substantially complete are also entered into the AP system and coded to the deferred cost clearing account. The AP system then feeds the FA module through the mass additions table. These estimated costs for invoices not yet received PLUS the total costs of the invoices received represent the total cost of goods sold to be amortized starting in month one. Over time as the supplier invoices are received, the estimates are reversed and the actual cost are entered into the AP system both are coded to the COGS deferred cost clearing account on the balance sheet (this process represents a “true-up” of the total costs associated with that specific publication).

Each month that a “true-up” is recorded the related amortization of the COGS needs to be adjusted. The amortization is only adjusted for the remaining life of the publication (months that have already been closed are not adjusted). The solution needs to include a process to look at the total remaining costs by publication which have been adjusted to actual and divide these costs by the remaining life of the publication. In addition to the true-up of the total costs there are times a business decision is made to either long life or short life a publication. When this decision is made, the remaining life of the publication is adjusted in the FA module and the unamortized costs are expensed over the new remaining life. Months that have already been closed are not adjusted.

Example – Below is an example of the above narrative for Cost of Goods Sold (COGS) deferral and amortization method of accounting:

- Month 1 (Distribution of publication is “substantially complete”)
 - Publication Costs (1 year amortization life)
 - \$7k actual cost
 - \$5k estimated costs
 - \$12k total actual and estimated costs
 - Amortization of cost of goods sold for month 1
 - \$12k/12 months remaining life = \$1000
- Month 2
 - Actual invoice is received for the estimated cost. New publications Costs are:
 - \$7k original actual costs
 - \$5k estimated costs reversed
 - \$13k actual replacing the original estimated costs
 - \$20k new total costs
 - Amortization of remaining cost of goods sold for month 2
 - Total costs remaining beginning of month 2 \$11,000 (\$12,000 total actual and estimated LESS month 1 amortization of \$1,000)
 - True up in month 2 - \$11,000 LESS estimated costs of \$5,000 PLUS actual costs of \$13,000 for an adjusted unamortized balance of \$19,000.
 - Month 2 expense equals the adjusted unamortized balance of \$19,000 divided by the remaining life of 11 months
 - Total Amortization costs starting in month 2 \$1,727

Summary

Implementation Detail Steps

The solution will be accomplished with standard functionality within the fixed assets module. The assets module delivers the asset cost adjustment, change in remaining life, and the amortization functionality required to properly defer and amortize publication costs. There will be 2 asset books setup within the Oracle FA system. This first book will contain LIM’s “true” fixed assets. The second asset book will be for the cost of goods sold (COGS) or deferred costs. The deferred costs asset book categories are setup within the COGS book using the necessary default information. The “true” fixed assets and the COGS deferred costs are

presented as separate line items on the balance and in order to keep the costs of the 2 books separate, two different clearing accounts are used.

The major category key flexfield value will be COGS and the minor category value will be the type of product (new media and print). See Exhibit 1 and 2.

Exhibit 1

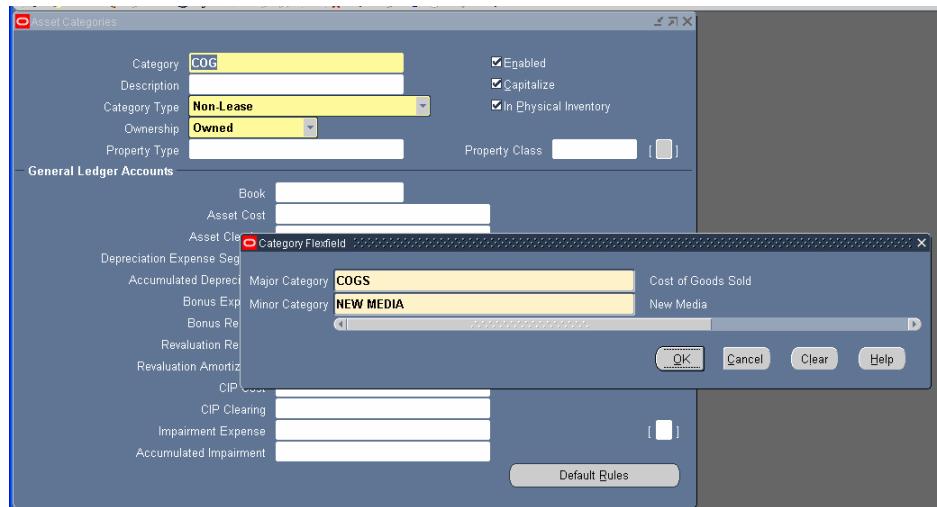
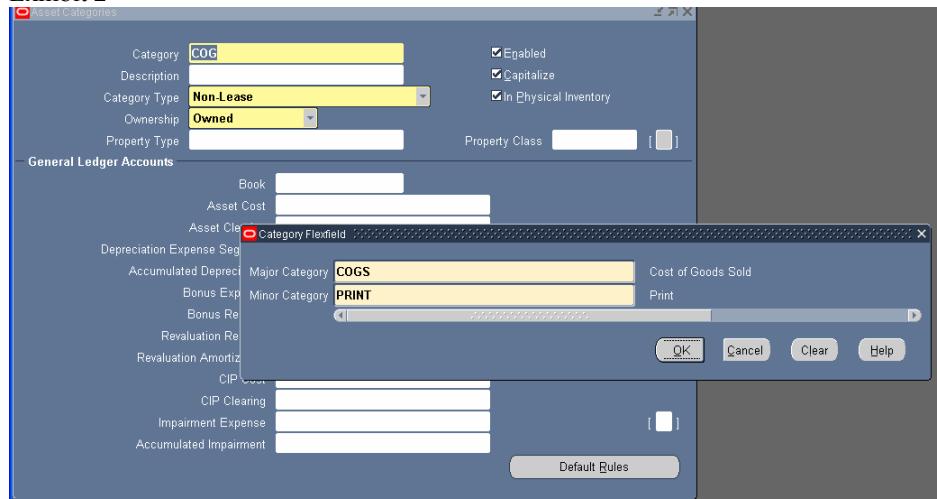


Exhibit 2



These COGS asset categories are set up to be CIP enabled. The categories are specific to the COGS process and thus are not set up for the LIM asset book or the related tax books.

There is a descriptive flexfield setup in the source lines (Exhibit 3) screen that needs to be populated to identify what the cost relates to (the specific costs noted below). To populate the flexfields will be a manual process and the asset accountant enters this information at the time the initial asset is "set-up" or when additional costs are added to the parent asset. Because this is a manual process additional processes are performed to verify all individual costs lines are associated with a source line. A report is generated each month (prior to close) which identifies all individual cost lines that are blank. The asset accountant then populates these fields with the required source line information. This source line report is developed in Discover. Defined values within the DFF are as follows:

- Paper costs of the publication

- Printing costs of the publication
- Outside graphic costs of the publication
- Sales salaries, incentives and commissions paid
- Agency fees for national accounts (3rd party commissions)
- Prepaid publication rights
- Distribution costs of the publication

Exhibit 3

The screenshot shows the Oracle Source Lines window. At the top, there are fields for Asset Number (248), Cost (544,976.28), Asset Type (Capitalized), New Cost (544,976.28), and Amortize Adjustment (checkbox checked). Below these are fields for Status, Amortization Start Date (31 JAN 2008), and Transfer Amount (with a red arrow pointing to it). The main area is a table titled "Source Lines" with columns: Invoice Number, Line, Description, Active, Supplier Name, Number, Line Amount, and Transfer Amount. The table lists various invoices and their corresponding supplier information and amounts. At the bottom, there are buttons for Project Details..., Transfer to..., Retire, Done, and Cancel.

Invoice Number	Line	Description	Active	Supplier Name	Number	Line Amount	Transfer Amount
GANCHNOV07	4	LOCAL COGS-DEFERRED	<input checked="" type="checkbox"/>	BERRY COMPANY	111	34,024.37	PF
7ANCDEC07	4	LOCAL COGS DEFERRED	<input checked="" type="checkbox"/>	BERRY COMPANY	114	29,545.32	PF
8ANCDEC07	4	ANCHORAGE SETTLEMENT	<input checked="" type="checkbox"/>	BERRY COMPANY	114	18,277.96	PF
		BBDI OCT 07	<input checked="" type="checkbox"/>			73,560.06	PF
		ENVELOPE	<input checked="" type="checkbox"/>			4,736.68	PF
		ISSUE COSTS	<input checked="" type="checkbox"/>			157,272.00	PF
		NYPS	<input checked="" type="checkbox"/>			150,224.00	PF
		BBDI	<input checked="" type="checkbox"/>			50,992.61	PF
		GRAPHICS	<input checked="" type="checkbox"/>			5,392.00	PF

Oracle Process Solution - For the purposes of this white paper, the process description will be broken into 4 sections: bulk paper costs, initial publication/sales costs, additional “actual” publication costs, and estimated publication costs.

Process 1 – Bulk paper costs - LIM purchases the paper for the printing of their publications in bulk. The bulk paper is generally used for more than one publication. The paper is purchased and held by the printer to produce future publications. This bulk paper is not amortized (expensed) until the publication that used the paper is printed and distributed. The bulk paper asset is added to the COGS asset system as a deferred asset (prepaid paper) via the normal Oracle procurement and AP process.

Within the mass additions table, this asset will be assigned to the “bulk paper” category. Since the amortization of the costs of each publication begins when the publication has been distributed (i.e. the publication is printed, bound and delivered to the consumers) and bulk paper is used during the printing process, it is not amortized as a stand alone category. Instead, the portion of the paper that is used for a specific publication is transferred to that “publication” parent asset and amortized along with the other costs over the life of the publication (generally one year). Accordingly, this category is set up in the FA system not to depreciate. This setting ensures that all prepaid bulk paper assets will not depreciate/amortize within the assets module. Exhibit 4 and 5

Exhibit 4

The screenshot shows the 'Asset Categories' window with the following details:

- Category:** COGS.BULK PAPER
- Description:** COGS.BULK PAPER
- Category Type:** Non-Lease
- Ownership:** Owned
- Property Type:** PERSONAL
- Property Class:** 1245
- General Ledger Accounts:**
 - Book: COGS
 - Asset Cost: 120.000.129100.000.0000.00.00.000.00
 - Asset Clearing: 120.000.125190.000.0000.00.00.000.00
 - Depreciation Expense Segment: 510000
 - Accumulated Depreciation: 120.000.129100.000.0000.00.00.000.00
 - Bonus Expense: 510000
 - Bonus Reserve: 120.000.129100.000.0000.00.00.000.00
 - Revaluation Reserve:
 - Revaluation Amortization:
 - CIP Cost:
 - CIP Clearing:
 - Impairment Expense:
 - Accumulated Impairment:
- Buttons:** Default Rules []

Exhibit 5

The screenshot shows the 'Default Depreciation Rules - COGS.BULK PAPER, COGS' window with the following settings:

- Placed in Service:** 01-JAN-1900
- Depreciate:**
 - Method: STL
 - Life Years: 1
 - Months: 0
 - Bonus Rule:
- Default Subcomponent Life:**
 - Rule:
 - Minimum Years:
 - Months:
- Straight Line for Retirement:**
 - Method:
 - Life Years:
 - Months:
- Use Depreciation Limit:**
 - (radio buttons) Percent: %
 - Limit:
- Capital Gain Threshold:**
 - Years: 1
 - Months: 0
- Checkboxes:** ITC Eligible, Use ITC Ceilings, Mass Property Eligible, Group Asset:

Once it becomes known how much paper was used for a specific publication the bulk paper costs need to be transferred from the bulk paper asset and added to the publication asset. The user will perform a source line transfer of the dollar amount of bulk paper from the bulk paper asset to the publication asset. Exhibits 6, 7, and 8. During a source line transfer the system defaults the transfer amount to the entire amount of the remaining balance of the bulk paper asset to be transferred. This needs to be reviewed carefully as the amount of paper used for each publication is generally only a portion of the total quantity purchased and thus the transfer amount will usually need to be adjusted. The user then selects the publication or parent asset to transfer the paper too. This publication or parent asset is accumulating costs, capitalizing these costs, and will begin to amortize the costs when the distribution of the publication is substantially complete.

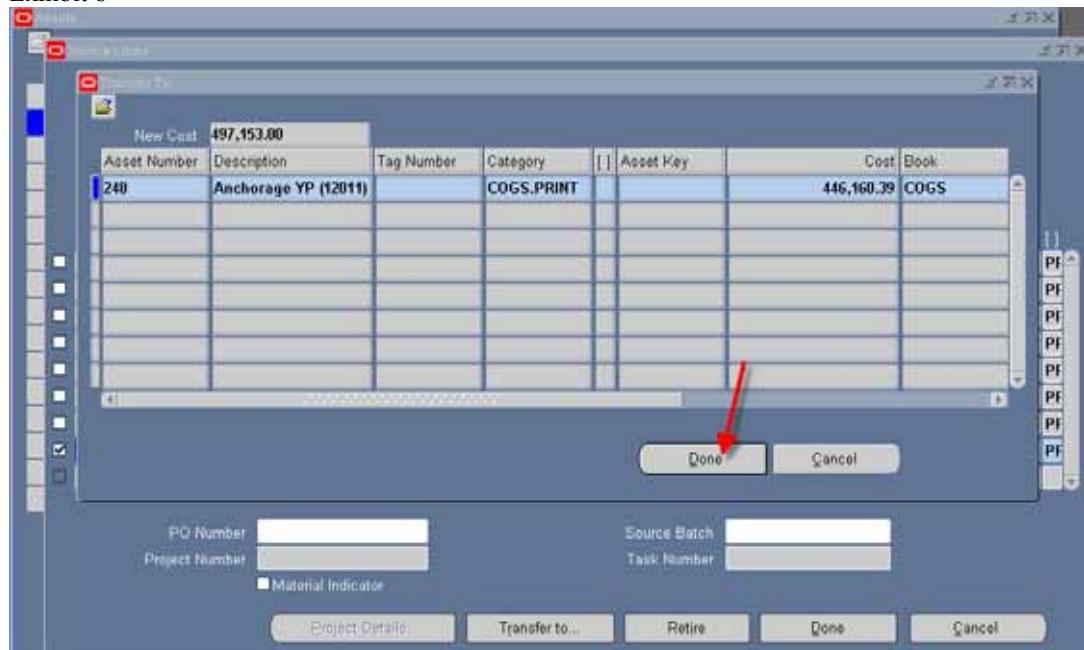
Exhibit 6

Asset Number	249	Asset Type	Capitalized				
Cost	60,427.42	New Cost	9,434.81				
Status		<input checked="" type="checkbox"/> Amortize Adjustment					
		Amortization Start Date 31-DEC-2007					
Invoice Number	Line	Description	Active	Supplier Name	Number	Line Amount	Transfer Amount []
		FOREIGN OCT-07	<input checked="" type="checkbox"/>			1,363.50	PF
		ISSUE COSTS	<input checked="" type="checkbox"/>			3,135.48	PF
		NYPS	<input checked="" type="checkbox"/>			2,588.00	PF
		BBDI	<input checked="" type="checkbox"/>			1,069.20	PF
		BBCR	<input checked="" type="checkbox"/>			792.00	PF
		FOREIGN	<input checked="" type="checkbox"/>			407.90	PF
		FOREIGN	<input checked="" type="checkbox"/>			78.73	PF
		BBDI	<input checked="" type="checkbox"/>			0.00	50,992.61 PF
			<input type="checkbox"/>				
				PO Number			
				Project Number			
				<input type="checkbox"/> Material Indicator	Source Batch		
				Task Number			
				Transfer to...		Retire	Done
						Cancel	

Exhibit 7

The screenshot shows a software interface for managing asset transfers. At the top, there's a toolbar with icons for 'Source Lines' (highlighted in red), 'Transfer To...', 'Open', 'Retire', 'Done', and 'Cancel'. Below the toolbar is a title bar with the text 'Transfer To...' and a close button. The main area contains a table with columns: Asset Number, Description, Tag Number, Category, Asset Key, and Cost. A vertical scroll bar is on the right side of the table. At the bottom of the table are 'Done' and 'Cancel' buttons. To the right of the table, there's a column labeled 'Transfer Amount []' with several entries, each consisting of a value (e.g., 50,992.61) and a label (e.g., PF). At the very bottom of the screen, there are additional input fields for 'PO Number', 'Project Number', 'Source Batch', 'Task Number', and a checkbox for 'Material Indicator'. There are also buttons for 'Project Details...', 'Transfer to...', 'Retire', 'Done', and 'Cancel'.

Exhibit 8



Process 2 - Initial Cost of a Publication - The initial cost incurred during the canvass period of a publication are usually the sales salaries, incentives, and commissions associated with the sales team selling the advertising into the publication. These costs are added to the asset system using the Quick Additions functionality. These costs are generated through the payroll function and thus are not passed to the FA module by Procurement or AP. This asset created for each specific publication will be referred to throughout this document as the “Parent Asset”. During the addition process this publication asset needs to be added into the FA system as a CIP asset. This will prevent the asset from depreciating/amortizing as well as allow additional costs to be added to the asset prior to the publication. The DFF at the source line screen needs to be populated for this addition with a source line value of “Sales Commissions Paid”.

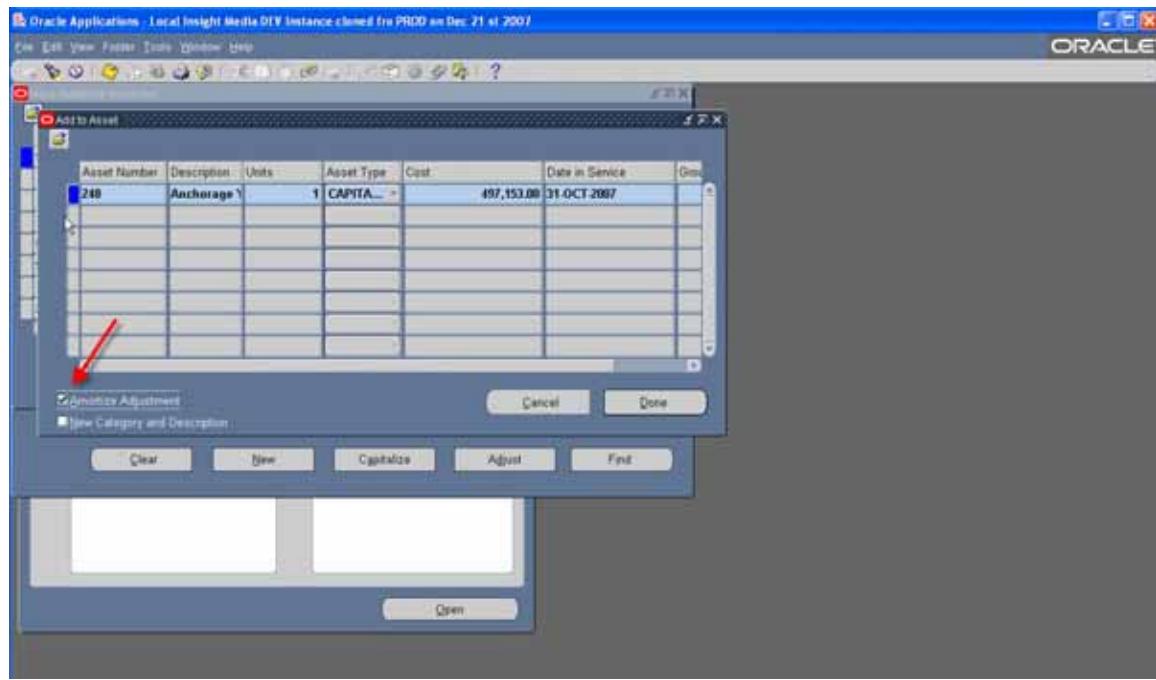
The general ledger account coding for this process is as follows:

- Accounting Entry we cost or estimate is enter through AP
 - DR CIP Clearing (CIP Deferred Cost Clearing)
 - CR Accounts Payable
- Accounting Entry after mass additions have been posted
 - DR CIP Cost (CIP Deferred Cost)
 - CR CIP Clearing (CIP Deferred Cost Clearing)

Process 3 – Additional Actual Costs of a Publication- Actual costs flow through the standard purchasing and AP process at LIM. The PO will need to be coded to the COGS asset book deferred costs clearing account. Invoices are matched to the PO coded to the FA clearing account for the COGS asset book. These invoices will be passed over to the fixed assets module by going through the standard mass additions process and then are added to the “Parent Asset”. This process is accumulating the total cost of the parent “asset”.

When an invoice and/or credit memo is brought over from AP and added to a “Parent Asset”, the user will need to check the “amortize adjustments” (exhibit 9) check box to ensure depreciation is calculated correctly. This will amortize the adjustment for the remaining life of the asset. Once this is completed they will be posted into the asset system using the standard post mass additions functionality.

Exhibit 9



Once the asset costs are posted, the descriptive flexfield in the source lines screen needs to be populated with the specific costs as noted in the previous section. This is a manual process and the asset accountant populates these fields at the time they prepare and post the mass additions.

Process 4 – Estimated Costs – The estimated costs are entered into AP by creating an invoice with an identifying invoice number beginning with “EST”. When the invoice estimate is entered into AP it is coded to the COGS clearing account. All suppliers where estimated invoices are required, a special site under the supplier will be set up to enter these estimates. This site name is called “ESTIMATE” and the payments terms are “hold all payments” which will stop all potential payments and the estimated invoices are never paid in error. Exhibit 10

Exhibit 10

Supplier Sites (Local Insight Media) - BERRY COMPANY, 114

Site Name	165-ESTIMATE	Alternate Name	<input type="text"/>	<input checked="" type="checkbox"/>	
Country	United States				
Address	DO NOT MAIL	Alternate Address	<input type="text"/>		
City	XXXXX	State	XX	Postal Code	XXXXX
Province			County		
Language			Inactive On	<input type="text"/>	
<input type="button" value="General"/> <input type="button" value="Contacts"/> <input type="button" value="Accoun..."/> <input type="button" value="Control"/> <input type="button" value="Payment"/> <input type="button" value="Bank A..."/> <input type="button" value="EDI"/> <input type="button" value="Invoice ..."/> <input type="button" value="Withhol..."/> <input type="button" value="Tax Re..."/> <input type="button" value="Purchas..."/>					
Invoice Tolerance <input type="button" value="LIM Invoice Tolerances"/> Invoice Amount Limit <input type="text"/> Invoice Match Option <input type="button" value="Purchase Order"/> <input checked="" type="checkbox"/> Hold All Payments <input type="checkbox"/> Hold Unmatched Invoices <input type="checkbox"/> Hold Unvalidated Invoices Payment Hold Reason <input type="text"/>					

These invoices (estimates) are passed over to the fixed assets module through the standard mass additions process where they will be added to the “Parent Asset” through the standard functionality within assets. They will then be posted to the asset.

Once the asset costs are posted, the descriptive flexfield in the source lines screen needs to be populated with the description/type of the specific costs

Once the actual invoice comes in for that estimate, the estimated invoice is canceled or a credit memo is entered in the AP system and matched to the estimated invoice removing it from the AP subledger. It will then pass over to assets through the standard mass additions process where it will be added to the existing asset and reversing the estimate.

When the actual invoice which replaces the estimate invoice is received it is processed through the system using the above process for “additional actual invoices”.

Substantially Complete Publication- Once the distribution of a publication is deemed to be substantially complete; the deferred revenue and related costs need to be amortized over the life of the publication.

The “Parent Asset” within the fixed asset system must be moved from CIP status and placed in service to begin the depreciation process. This is done using the standard functionality within the Oracle Assets module. At the time the asset is being placed into service, the user can adjust the life of the asset to ensure it matches the amortization period that is required (i.e. the life of the publication). The cost of goods sold (asset) will then begin to depreciate/amortize with the next monthly close cycle.

Reporting – The flexfield built in the Source Lines Screen will be used to report on the COGS deferred costs. This reporting allows costs to be grouped into the categories and analyzed by management.

At least 2 reports are required to be built within Discover. The first report should look at all source lines within the COGS book and provide data as to any source lines that does not have the flexfield populated. This will enable the user to populate this field before any financial data is reported.

The additional reports will need to be discoverer reports built to report financial data based on LIM's requirements.

Conclusion

This white paper demonstrates how creatively using the standard functionality of Oracle FA automated a significant manual accounting process for LIM. Oracle FA allows total costs to be accumulated and adjusted, asset lives to be established and changed in an effective and efficient manner. The developed reporting allows for the added controls necessary to keep accurate records of all amortized and unamortized deferred costs. The solution is scalable as well as brings an extra level of controls over the monthly recording of COGS into the P&L. With SOX (404) and Enron looming over all of our heads, the need to have timely and accurate financial reporting is critical to any successful business.



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