



Advanced Global Intercompany Settlement Process in Oracle ERP System

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ABSTRACT

The globalization of business operations necessitates efficient and accurate intercompany settlement processes to maintain financial integrity and operational transparency across multinational corporations. This article delves into the advanced global intercompany settlement process within the Oracle E-Business Suite, a comprehensive enterprise resource planning (ERP) solution. It explores the challenges faced by global enterprises in managing intercompany transactions, including regulatory compliance, currency exchange complexities, and multi-entity coordination. The article highlights the Oracle E-Business Suite's capabilities in automating and streamlining these processes, from transaction initiation to settlement, reconciliation, and reporting. Key features such as automated invoicing, real-time financial reporting, and robust audit trails are examined in detail. Additionally, best practices for implementing and optimizing the intercompany settlement process within Oracle E-Business are discussed, offering insights into achieving operational efficiency and financial accuracy. The article concludes with a discussion on the proposing a custom intercompany settlement process and the evolving role of ERP systems in supporting global financial operations.

Key words: Accounts Receivables, Accounts Payables, Oracle E-Business Suite, Enterprise Resource Planning, Financials, AGIS, Advanced Global Intercompany System, Intercompany Settlement.

INTRODUCTION

In today's interconnected global economy, multinational corporations face the intricate task of managing financial transactions across multiple entities, jurisdictions, and currencies. As businesses expand and operate across borders, the need for a robust and efficient intercompany settlement process becomes paramount. This process ensures that financial transactions between different branches or subsidiaries of the same parent company are accurately recorded, reconciled, and settled. Failure to effectively manage these transactions can lead to financial discrepancies, regulatory non-compliance, and operational inefficiencies.

The Oracle E-Business Suite, a leading enterprise resource planning (ERP) system, offers a comprehensive solution for handling complex intercompany transactions. This system provides a unified platform that integrates various business functions, enabling seamless financial operations and enhancing overall corporate governance. The advanced global intercompany settlement process in Oracle E-Business is designed to address the unique challenges faced by multinational enterprises, such as differing regulatory environments, currency exchange fluctuations, and the need for timely financial consolidation.

This article aims to explore the intricacies of the advanced global intercompany settlement process within the Oracle E-Business Suite and will dive into the features and functionalities that make this ERP system a powerful tool for managing intercompany transactions. Additionally, we will discuss best practices for implementation and optimization, ensuring that businesses can achieve maximum efficiency and accuracy in their financial operations. By leveraging the capabilities of the Oracle E-Business Suite, companies can streamline their intercompany settlement processes, mitigate risks, and enhance their overall financial performance.

REPORTING CHALLENGES FOR LARGE ORGANIZATIONS WITH MULTIPLE DATA SYSTEMS

Multinational organizations will have entities across different counties and they will be identified as legal entities in the Oracle E-Business suite application. Fig. 1. Shows a multi org structure defined in a ERP system. Transactions across these legal entities will be recorded as intercompany transactions and they will have to be settled internally as they fall under one organization and transactions within the parent organization. Following as some of the major challenges in settlement of Intercompany transactions.

A. Volume and Complexity of Transactions

Large corporations often deal with a high volume of intercompany transactions, increasing the risk of errors and delays. Different types of intercompany transactions, such as sales, services, and loans, each have unique settlement requirements.

B. Reconciliation Difficulties

Manual processes for reconciling intercompany transactions can be labor-intensive and error-prone. Discrepancies between intercompany records can lead to disputes, delaying settlements and complicating reconciliations.

C. Resource Allocation and Expertise

Ensuring that personnel are adequately trained and skilled in managing complex intercompany settlement processes is critical. Allocating sufficient resources to oversee and manage the settlement process effectively can be challenging.

D. Audit and Reporting

Maintaining a comprehensive audit trail of all intercompany transactions for transparency and compliance is essential. Generating accurate and timely financial reports that consolidate global operations can be complex.

E. Scalability and Adaptability

As organizations expand, their intercompany settlement processes need to scale effectively without compromising efficiency. The system must be adaptable to changes in business structures, processes, and regulatory environments.

F. Period Close Delays

It is very critical for large organizations to complete to period close activities on time as it will have major impact on the financial reporting and planning. Intercompany settlement process for large organizations can be cumbersome and time consuming due to the volume and various other complexities. As there will be Accounts Receivables (AR) and Accounts Payables (AP) Intercompany Invoices involved, this will also potentially delay the period closing of Accounts Receivables and Accounts Payables modules in the Oracle ERP system.

Multi-org Structure for ABC Inc

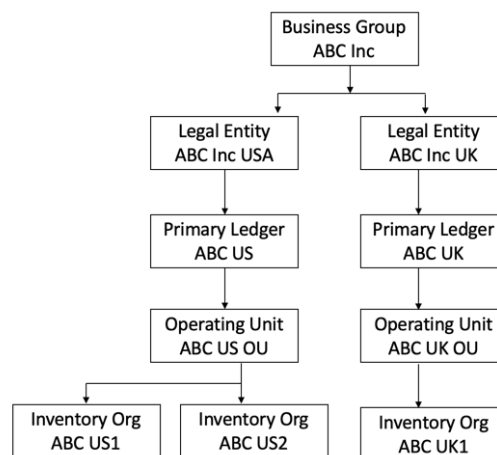


Fig. 1: Multi-org structure in a Oracle ERP System.

SOLUTION APPROACH FOR STREAMLINING THE INTERCOMPANY SETTLEMENT PROCESS

To address the major challenges faced by organizations performing intercompany transactions settlement processes in the Oracle E-Business Suite, a comprehensive and strategic approach is required. The following proposal outlines solution approach:

A. Initiator Transaction & Recipient Approval

Advanced Global Intercompany transaction starts with Initiator. Initiator will Initiate the transaction from the originating entity by creating an intercompany transaction document (e.g., invoice, sales). Route the transaction through the appropriate approval workflow to ensure it meets internal controls and compliance standards. Recipient has to approve the transactions sent by the Initiator. Fig. 2. shows the snapshot screen of the Recipient Approval.

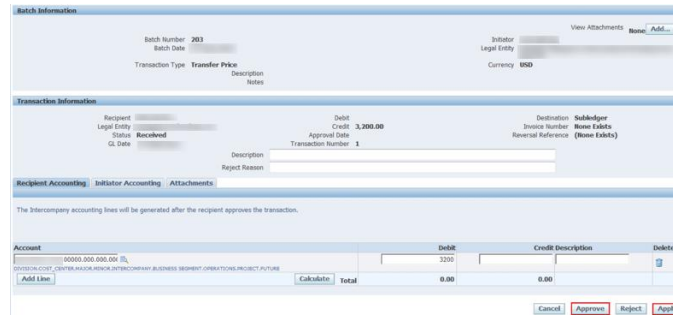


Fig. 2. This figure shows the Recipient Approval flow of the Intercompany transaction.

B. Transfer to Accounts Receivables and Accounts Payables

As the AGIS transactions are approved in the AGIS Module, Oracle program ‘Transfer Intercompany Transactions to Receivables’ is executed to push the Intercompany AR data to AR Interface tables. Autoinvoice Master program will import the invoices and generate the Intercompany AR invoice (# 10001). Please note this value as it will be referenced in discussions of the subsequent sections on the solution proposal.

Once the AR transaction ‘10001’ with the source Global Intercompany is successfully created in Accounts Receivables, Oracle program ‘Transfer Intercompany Transactions to Payables’ is submitted and it will insert the Intercompany AP invoice data to AP Interface. Payables Open Interface Import job will process this data to AP base tables and create the Intercompany AP invoice ‘10001’. Fig. 3. displays the sample Intercompany Accounts Payables and Accounts Receivables transaction generated from the AGIS module.

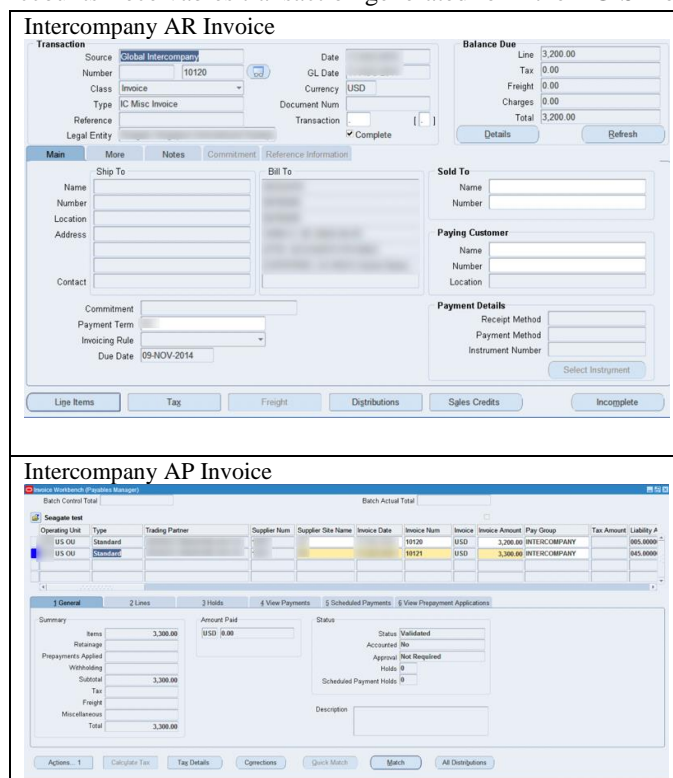


Fig. 3. Snapshot of the Intercompany AP and AR transaction.

C. Process the Payments

The Intercompany AP Invoice (10001) generated in the AP module needs to be closed before proceeding to the next step. Hence it will be paid using a dummy bank. As the Intercompany AP invoice is paid and accounted, the Accounts Payables side of the Intercompany transaction is cleared, but the Accounts Receivables side of the Invoice is still open. Next section (D) will discuss the custom solution that can be implemented to clear the Accounts Receivables open Intercompany invoice.

D. Custom Process – Accounts Receivables Receipts Application

This section will discuss the core design of the solution for the settlement process. The Intercompany AP Invoice (10001) created will have the Paygroup ‘Intercompany’. A custom process ‘Intercompany Settlement Program’ is developed. The primary function of this process is to look for Accounts Payables Invoices with Paygroup ‘Intercompany’ and is fully paid. Once these payments are identified, it will generate receipts in the Accounts Receivables module for each AP intercompany invoice selected.

As a next step the process will Identify the AR invoices which matches the AP invoice numbers (sample: 10001) and that also has a source ‘Global Intercompany’. The custom process will then apply the receipts created against these AR Intercompany invoices based on the invoice number. For example, if the AP Intercompany invoice number was ‘10001’, an AR receipt XXX_10001 will be created and applied to the AR Intercompany invoice ‘10001’. Fig. 4. represents the end to end flow of Intercompany settlement process. As a net effect both the AP and AR Intercompany invoices are cleared and settled by this automation.

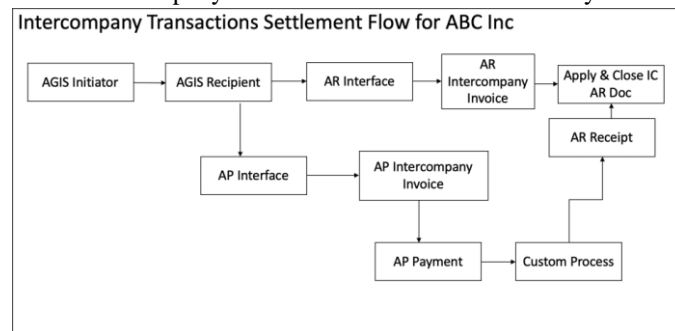


Fig. 4. This figure shows the process flow of Intercompany settlement process designed.

E. Reporting and Accounting

This will be the final step of the settlement process. Once the receipt application process is completed, the process generates a detailed report with all the Accounts Payables and Accounts Receivables Intercompany invoices, AP payment details and the AR receipt application details. Fig. 5. shows the sample snapshot of the report. Last step will be to account and post the Accounts Payables and Accounts Receivables transactions to General Ledger module.

Intercompany Settlement Execution Report
8/23/18 9:30

Parameters:
From Invoice Date: 25-Jul-14
To Invoice Date: 25-Jul-14
From GL Date: 25-Jul-14
To GL Date: 25-Jul-14
From Payment Date: 25-Jul-14
To Payment Date: 25-Jul-14
Supplier Name: AP Intercomp

Supplier Name	Customer Name	Invoice Date	AP Invoice #	GL Date	Currency	Total AP Invoice	AP Invoice Current Balance	Payment Date	Payment Number	Payment Status	Payment Amount
ABC Inc USA	ABC Inc Canada	25-Jul-14	10001	25-Jul-14	USD	3,000.00	0	18-Aug-14	212	NEGOTIABLE	3,000.00
						Subtotal	3,000.00				3,000.00
ABC Inc India	ABC Inc USA	25-Jul-14	10002	25-Jul-14	USD	3,000.00	0	18-Aug-14	212	NEGOTIABLE	3,000.00
						Subtotal	3,000.00				3,000.00
ABC Inc USA	ABC Inc UK	25-Jul-14	10003	25-Jul-14	USD	2,000.00	0	18-Aug-14	212	NEGOTIABLE	2,000.00
						Subtotal	2,000.00				2,000.00

AR Invoice #	Total AR Invoice	AR Invoice Current Balance	Receipt Number	Receipt Amount	Status
10001	3,000.00	0.00	IC_10001	3,000.00	Reconciled
	3,000.00	0.00		3,000.00	
10002		0	IC_10002	3,000.00	Reconciled
	0	0		3,000.00	
10003	2,000.00	0.00	IC_10003	2,000.00	Reconciled
	2,000.00	0.00		2,000.00	

Fig. 5. This figure shows the report output with IC AP and AR Intercompany settlement details.

IMPACT

The implementation of Oracle E-Business Suite Financials and the Advanced Global Intercompany module coupled with the custom solution for intercompany settlement discussed in this article will have significant impact on the company's intercompany settlement process, reconciliation and reporting.

SCOPE

The use case discussed in this article are the transactions within the Oracle E-Business Suite Enterprise Resource Planning (ERP) application Advanced Global Intercompany Systems module and the custom process designed to enable the automatic Intercompany settlement process.

CONCLUSION

Effective management of intercompany transactions is crucial for multinational corporations to maintain financial accuracy, regulatory compliance, and operational efficiency.

The Oracle E-Business Suite provides a comprehensive platform to address the complexities associated with intercompany settlements, offering robust tools and functionalities that streamline the entire process from transaction initiation to settlement and reporting.

In conclusion, Oracle E-Business Suite offers a powerful solution for managing global intercompany transactions. By following a structured and strategic custom approach discussed in this article, organizations can achieve seamless intercompany settlements, ensuring financial health and operational harmony across their global operations.

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