

White Paper

Creating Multi-Year Contracts with Absolute Budgetary Control

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Overview

Most of the clients on Oracle eBS and who use Procurement and have Encumbrance accounting enabled, sign multi-year contracts. And budgeting team in most cases does not budget for more than a year and has absolute budgetary control defined in Oracle General Ledger. This means, that even though there is no budget defined for future years and have absolute budgetary control, client wants to be able to sign multi-year contract for future years.

In such business scenarios, end users create requisitions for multiple years which will be converted into an order spanning multiple years. Budgeting team also wants to record commitments and obligation for all future years in the system so that they can report this to management and it will also help with budgeting for next year.

Solution is required in Oracle eBS which will help meet business requirements of both Procurement and budgeting teams.

Solution Approach

Following suggested setups need to be done to meet this business requirement

- Open Encumbrance future years (No need to open future actual GL periods)
- Set the Profile Option "**PO: Validate GL Period**" value to **No**
- Open future Purchasing Periods till the year contracts are required to be created
- Define Funding Budget with First Period as First period of current year and Last Period as last period of the current year. Remember to "Open Next Year" before 31-DEC-2015.
- Define the account ranges with absolute budgetary controls using the funding budget organization defined in above step.

Setup Details

1. Open Encumbrance future years (No need to open future actual GL periods)

This allows to book encumbrance for future years in Oracle GL when creating requisitions and orders.

2. Open future Purchasing Periods till the year contracts are required to be created
3. Set the Profile Option "**PO: Validate GL Period**" value to **No**

Above 2 setups allow to create requisitions and orders with future Encumbered Date. Since "PO: Validate GL Period" is set to No, Oracle will not validate whether actual GL periods are open or closed.

4. Define Funding Budget with First Period as First period of current year and Last Period as last period of the current year. Remember to "Open Next Year" before 31-DEC-2015.

This ensures that Oracle will allow to book encumbrance for future years. Since Last Period is in year 2015, budgetary control is applicable for only 2015 and there is no control for future years.

Note: If you define Last Period as ADJ-16, Oracle will have absolute control for year 2016 as well and there is no way to change this value back to ADJ-15. Also, do not define Last Period as any other period except Last period of the calendar, else Oracle will not allow to change this value and a new budget will need to be defined for remaining periods.

5. Define the account ranges with absolute budgetary controls using the funding budget organization defined in above step.

Defining Budget

Let's assume our financial year is from January to December and calendar as 13 periods, starting from January to December and Adjustment being 13th period with date as 31-DEC-YY. We will use period naming convention is MON-YY.

Let's assume current year as 2015, First period is Jan-15 and Last period is ADJ-15.

1. Define Funding Budget Organization for Year 2015 as shown below. Status is "**Current**".
 - a. Budgets>Define>Budget

Functions Documents Processes

Budgets:Define:Budget

Define budgets

- + Journals
- Budgets
- + Enter
- Define
- Budget

Top Ten List

1. Funds Available Inquiry
2. Enter Journals
3. Enter Encumbrances
4. Key Flexfield Values

Budget: **EXPENSE_REVENUE**

Description: **Funding Budget**

Ledger:

Status: **Current**

☒ Require Budget Journals

Dates

Created: **14-MAR-2011**

Frozen:

Budget Periods

First: **JAN-11** Last: **ADJ-16**

Latest Open Year: **2015** Master Budget:

Open Next Year AutoCopy...

2. Define account ranges for Funding Organization **"EXPENSE_REVENUE"** with absolute control
 - a. Budgets>Define>Organization

Functions Documents Processes

Budgets:Define:Organization

Define budget organizations

- + Journals
- Budgets
- + Enter
- Define
- Budget
- Organization
- MassBudget
- Formula
- Controls
- + Generate
- + Schedule
- Freeze
- Launch Budget W
- + Inquiry
- + Currency
- + Consolidation
- + Reports
- + Setup

Accounts

Line	Low	High	Type	Currency
1				
2				
3				
4	Funds Check Level	Amount Type	Boundary	Funding Budget
5	Absolute	YTD	Year	EXPENSE_REVENUE
6				
7				
8				
9				

AutoCopy... Maintain Delete

3. Upload budget journals in GL for the year 2015 as per business requirements. Business may directly upload budget journal in GL or use other systems like Hyperion Planning to do budgeting and then transfer budget to GL.

Creating Requisitions

When creating requisitions, GL date is a mandatory field to be entered. Oracle validates whether this GL period is open or not. By setting the profile “PO: Validate GL Period” to No, this validation is overwritten and Oracle allows to create a requisition with future year dates.

1. Create Requisition with one line for 2015 and one for 2016 and click on Check Funds. It will pass funds check as long as there is budget in account for year 2015.

On Similar lines, you can create lines for 2017 and any number of future years depending on business needs.

Shop Requisitions Receiving Assessments

Requisition Information Approvals Review And Submit

Information
Check Funds completed successfully.

Requisition Information: Edit Lines
* Indicates required field

Check Funds Apply

Delivery Billing Accounts Attachments

Select Lines: Update Copy Delete

Select All Select None

Select Line	Description	Charge Account	GL Date	Split
<input type="checkbox"/> 1	TEST2015	01-0601010000-0000000-720102018-00-0000	23-Apr-2015	
<input type="checkbox"/> 2	TEST2016	01-0601010000-0000000-720102018-00-0000	23-Apr-2016	

TIP Click on a Split icon to allocate costs to multiple accounts.

Check Funds Apply

Shop Requisitions Receiving Assessments Shopping Cart Home Logout Preferences Help Interactive Manuals

For year 2016 and all other future years, since purchasing period is open, Oracle will allow to create requisitions and orders and book encumbrance for all future years.

2. Below is snapshot from the Check Funds report. See that 2016 shows -ve encumbrance.

Expand All										
Application	Purchasing		Batch Reference		Document Reference		Approved			
Supplier			Site		Document Status					
Account Combination	Period	Line Reference	Result Status Type	Result Message	Previous Funds Available	Base Amount	Current Funds Available	Amount Type	Boundary	B
01-0601010000-0000000-720102018-00-0000	APR-15		Approved	This transaction passes funds check	110,000.00	-4,000.00	106,000.00	YTD	Year	E
01-0601010000-0000000-720102018-00-0000	APR-16		Approved	This account does not require funds check		-4,000.00				
Accounting Errors										
Document	Event Id	Header Id	Line Num	Message						

Check Funds Available

1. Check Funds Available Inquiry in GL for Apr-2015 for this code combination. You will see the encumbrance booked.

3. For 2016, "Funds Available Inquiry" screen will not work as the Last Period for our budget is ADJ-15. To check encumbrance details for 2016 and all other future years, Oracle Standard "**Encumbrance Details Report**" can be run for the account used in requisition. It will provide encumbrance position for the accounts across all years. Since there is no budget for future years, funds available are negative.

Creating Purchase Order

1. The requisition created above can now be converted into a Standard Purchase Order with 2 lines.
2. Order will be created successfully and commitment will be moved to obligation.
3. Funds available position remains the same.

Creating Receipts

1. Depending on the setups done for your client, you can now receive items against this purchase order.
2. Oracle will allow doing receiving for 2015 line item.
3. Oracle will also allow doing receiving for 2016 line items.

Please review this carefully, since creating a receipt will move Obligation to Other section under Encumbrance. If receiving is done for 2016 line item in 2015, you will have -ve encumbrance shown in 2015.

You can create a personalisation if required to prevent receiving future dated item if this is what your client wants to do.

Creating Invoices

1. Using "Match Option" functionality, invoices can be created in Oracle AP.
2. Invoice creation will book the actuals in Oracle GL.

Conclusion

Below is a complex business need which is very common.

1. Procurement needs to create multiyear contracts
2. Budgeting team wants to budget for only 1 year and will not define budget for future years
3. Budgeting team wants to have absolute control over budget for current financial year.
4. Procurement and Budgeting team want to ensure that system records commitments and obligations for all future years in the system for audit purposes.

For all future years, we will have negative funds available in the system and oracle standard reports can be run to pull out the details. At the beginning of the next financial year, budgeting team will pull out the funds available position and use this as a reference to do budgeting for that year and upload budget. Once budget is uploaded, budgetary control will be changed to Absolute automatically as soon as next year is opened for the budget defined. Same cycle will be followed each year.

This solution helps meet all client requirements without need to do any customisations.