
Oracle Order To Cash Accounting - Made Easy

Author – Brijesh Bharat, PMP

I. Introduction

This white paper will provide a comprehensive view and understanding of accounting details for inventory and receivables transactions in an Order To Cash scenario. The presentation will capture complete accounting details in every step of a standard Sales Order life cycle. The explanation will be detailed by fulfilling a standard Sales Order by booking, shipping, closing and AR Invoicing.

This paper will highlight the following:

- Explain the difference between the Inventory Cost and Selling Price of an Item
- Accounting on the Inventory and Receivables side
- How to recognize Profit made on a Sale by Cost Profit Margin Analysis Report

II. Business Background

When it comes to selling, it helps to have as much information about the account distribution as possible right from the inventory cost of a product to its billing revenue. Most enterprises want to track the cost of products and profit made by selling the product. This plays a critical role in the Profit and Loss Accounting to determine a company's overall worth. Management accounting and reporting based on product plays a significant role to reduce its cost and enhance its revenue effectively.

In Oracle E-Business suite, accounting segment values in the account distributions are based on master and transaction type set up.

Following table illustrates the logic of obtaining accounting segment values in an Order To Cash business case:

Accounting Source of Values

Module Name	Transaction Type	Account Type	Source of Values
Oracle Inventory	Shipment	Cost of Sales	Item or Order type
Account Receivables	Invoice/Credit or Debit Memo	Revenue	Auto accounting/ transaction type

Following table illustrates Debit and Credit side of account in an Order To Cash business case:

Debit/Credit Account on a Sale

ON THE COST SIDE (INCUR Cost)	ON THE REVENUE SIDE (REALIZE Revenue)
<ul style="list-style-type: none"> • DR COGS (via Account Generator) 	<ul style="list-style-type: none"> • DR Receivables
<ul style="list-style-type: none"> • CR Inv Valuation Account 	<ul style="list-style-type: none"> • CR Revenue

Following table indicates various Order/ Shipping functions and their results:

Anatomy of various OM/ Shipping functions

Function	Result
Ship Confirm	Closes the delivery
Trip Stop (INV and OM)	Updates the order lines to Shipped
Workflow Background Process	<ul style="list-style-type: none"> ➤ Updates the Order lines to Closed ➤ Populate AR Interface Table
Auto Invoice	Generate Invoice

Order To Cash Scenario with Cost and Revenue Accounting

1. An Item e.g. 510365 has 021-00000-30-0000-56100-0000-0000000000-00000-00000 COGS string under an Inventory/ Shipping Org - DMD. Source of value for the COGS is assumed here from the Inventory Item.

The screenshot shows the 'Organization Item (DMD)' window in Oracle Order To Cash. The window title is 'Organization Item (DMD)'. The main area displays the following information:

- Organization: DMD Diagnostic Manufacturing Division(DMD)
- Item: 510365
- Description: BROMELAIN - 5X1000 ml

The 'Costing' tab is active, showing the following settings:

- Costing Enabled (E)
- Inventory Asset Value (Q)
- Include In Rollup (S)
- Cost of Goods Sold Account: 021-00000-30-0000-56100-0000-00000-00000-00000
- Standard Lot Size: [Empty field]

At the bottom of the window, there are several dropdown menus and buttons:

- Internal Ordered: [Empty dropdown]
- Invoiceable: [Empty dropdown]
- Build in WIP: [Empty dropdown]
- Internal Orders Enabled: [Empty dropdown]
- Invoice Enabled: [Empty dropdown]
- BOM Allowed: [Empty dropdown]
- Buttons: Clear, Find

2. Assuming 510365 has a unit cost of \$20.00 in the Org.

The screenshot displays the 'Item Costs Details (DMD)' window for item 510365, 'BROMELAIN - 5X1000 ml'. The window is divided into several sections:

- Item Information:** Item: 510365, Description: BROMELAIN - 5X1000 ml, UOM: Ea, Cost Type: Frozen, Default Cost Type: Frozen.
- Cost Controls:** Inventory Asset, Based On Rollup, Lot Size: 1, MFG Shrinkage Rate: 0.
- Cost Information:**
 - Material: 20.00000
 - Material Overhead:
 - Resource:
 - Outside Processing:
 - Overhead:
 - Unit Cost: 20.00000
 - COGS Account: 021-00000-30-0000-56100-0000-00000000
 - Sales Account: 000-00000-00-0000-10000-0000-00000000
 - Cost Category: UNSP-UNSP-UNSP-N
 - Quantity: 1091
 - Extended Value: 21,820.00
 - Last PO Price: 0.00000
 - Invoice Price:
 - Make/Buy: Make
 - Include In Rollup

Buttons for 'Views' and 'Costs' are located at the bottom of the window.

3. Order # 42 booked for order total of \$21.00. Unit selling price of 510365 is \$21.00.

Note: Shipping Org is DMD

Order Information

Order Total 21.00

Main Pricing Shipping Addresses Returns Others

Line	Ordered Item	Qty	UOM	Unit Selling Price	Request Date	Schedule Ship Date	
1.1	510365	1	Ea	21.00000	26-APR-2004 13:02:17	26-APR-2004 23:59:59	

Line Total 21.00 Line Qty 1 Service Total 0.00

Description BROMELAIN - 5X1000 ml

Actions Related Items Copfigurator Availability Book Order

4. Order line picked, shipped and closed.

The screenshot displays the Oracle Order To Cash interface for a sales order. The window title is "Sales Orders (42) - ARCHS-GREATER LOS ANGELES CHAPTER". The "Order Information" tab is active, showing the "Line Items" section. The "Order Total" is 21.00. The "Main" tab is selected, and the "Line Items" table is visible. The table has columns for Line, Ordered Item, Price, Request Date, Schedule Ship Date, Status, On Hold, and Cascade. The first row shows a line item with Line 1.1, Ordered Item 510365, Price 000, Request Date 26-APR-2004 13:02:17, Schedule Ship Date 26-APR-2004 23:59:59, and Status Closed. The "On Hold" checkbox is unchecked. Below the table, the "Line Total" is 21.00, "Line Qty" is 1, and "Service Total" is 0.00. The description is "BROMELAIN - 5X1000 ml". At the bottom, there are buttons for "Actions", "Related Items", "Configurator", "Availability", and "Book Order".

Line	Ordered Item	Price	Request Date	Schedule Ship Date	Status	On Hold	Cascade
1.1	510365	000	26-APR-2004 13:02:17	26-APR-2004 23:59:59	Closed	<input type="checkbox"/>	
						<input type="checkbox"/>	
						<input type="checkbox"/>	
						<input type="checkbox"/>	
						<input type="checkbox"/>	
						<input type="checkbox"/>	
						<input type="checkbox"/>	
						<input type="checkbox"/>	

Order Total: 21.00

Line Total: 21.00 Line Qty: 1 Service Total: 0.00

Description: BROMELAIN - 5X1000 ml

Buttons: Actions, Related Items, Configurator, Availability, Book Order

ACCOUNTING ON THE RECEIVABLE SIDE

5. Run Auto Invoice and generate the Invoice against the Order

The screenshot displays the Oracle Order To Cash interface. The main window, titled "Transactions (ARC Operating Unit)", shows the following details:

- Number: 88000124
- Reference: 42
- Source: CLS-CFS Imported Source
- Type: CFS OE INV
- Date: 26-APR-2004
- Currency: USD
- Class: Invoice
- GL Date: 26-APR-2004

The "Shipment" window, titled "Lines (ARC Operating Unit) - ARCCHS-GREATER LOS ANGELES CHAPTER, 88000124", provides a summary of the invoice lines:

Transaction	Lines	Tax	Freight
21.00	21.00	0.00	0.00

The detailed line item window shows the following data:

Num	Item	Description	UOM	Quantity	Unit Price	Amount
1	510365	BROMELAIN - 5X10	EACH	1	21	21.00

Buttons for "Distributions", "Sales Credits", "Freight", and "Tax" are visible at the bottom of the line item window.

Receivables Account getting Debit
Revenue Account getting Credit

6.1 Check the T-Account

The screenshot shows the Oracle Financials interface for checking a T-account. The main window displays the following data:

011-00000-00-0000-18220-0000-0000000000-00000-00000			
Chapter Services Net-Unspecified-Unspecified-Unspecified-IRC\--Due from Chpt\--Prod & Svc-			
	USD	USD	USD
Invoice 88000124	21.00	21.00	
Net Activity	21.00	21.00	
011-00000-05-0000-47000-0005-0000000000-00000-00000			
Chapter Services Net-Unspecified-Chapter Services-Unspecified-Products and Services-Califor			
	USD	USD	USD
Line 1			21.00
Net Activity			21.00
Total Net Activity For All Account:		21.00	21.00

Buttons at the bottom of the window include 'Options' and 'Activity Summary'.

7. ACCOUNTING ON THE INVENTORY SIDE

COGS Account String - 021-00000-30-0000-56100-0000-0000000000-00000-00000 equals to Item/Org COGS String setup (see Page 2)

The screenshot displays the Oracle Material Transaction Distributions (DMD) window. The window title is "Material Transaction Distributions (DMD) - 20996040". The window contains a table with the following columns: Transaction Date, Account, Transaction Value, Item, Revision, and Transaction Type. The table shows two transactions on 26-APR-2004. The first transaction has a value of 20.00 and is a "Sales order issue". The second transaction has a value of -20.00 and is also a "Sales order issue". Below the table, there is a summary section with the following fields: Item (510365), UOM (Ea), Description (BROMELAIN - 5X1000 ml), Quantity (1.00), Revision, Unit Cost (20.00000), and Account (021-00000-30-0000-56100-0000-0000000000-00000-00000). The Account field is highlighted in blue. An arrow points from the text above to the Account field in the table.

Transaction Date	Account	Transaction Value	Item	Revision	Transaction Type
26-APR-2004	021-00000-30-0000-56100	20.00	510365		Sales order issue
26-APR-2004	000-00000-00-0000-10000	-20.00	510365		Sales order issue

Item: 510365
UOM: Ea
Description: BROMELAIN - 5X1000 ml
Quantity: 1.00
Revision:
Unit Cost: 20.00000
Account: 021-00000-30-0000-56100-0000-0000000000-00000-00000
Value: 20.00

COGS getting Debit

COGS Account String : 021-00000-30-0000-56100-0000-0000000000-00000-00000

Revenue Account String: 011-00000-05-0000-47000-0005-0000000000-00000-00000

7.2 COGS Account Contd.....

Material Transactions (DMD)

Material Transaction Distributions (DMD) - 20996040

Account Location Type Currency Comments

Transaction Date	Accounting Type	Transaction Source Type	Transaction Source	UOM	Primary Quantity
26-APR-2004	Account	Sales order	42.DMD Regular Ord	Ea	1.00
26-APR-2004	Inv valuation	Sales order	42.DMD Regular Ord	Ea	-1.00

Item: 510365 UOM: Ea

Description: BROMELAIN - 5X1000 ml Quantity: 1.00

Revision: Unit Cost: 20.00000

Account: 021-00000-30-0000-56100-0000-0000000000-0000 Value: 20.00

INV Valuation Account String: 000-00000-00-0000-10000-0000-00000000000-00000-00000 equals to Subinventory Material Account

INV Valuation getting Credit

The screenshot shows the Oracle Material Transaction Distributions (DMD) window. The main table displays two transactions for item 510365 on 26-APR-2004. The first transaction is a debit of 20.00 to account 021-00000-30-0000-56100. The second transaction is a credit of -20.00 to account 000-00000-00-0000-10000. The details pane at the bottom shows the item 510365, description 'BROMELAIN - 5X1000 ml', and unit cost of 20.00000. The account string 000-00000-00-0000-10000-0000-00000000000-00000-00000 is visible in the account field.

Transaction Date	Account	Transaction Value	Item	Revision	Transaction Type
26-APR-2004	021-00000-30-0000-56100	20.00	510365		Sales order issue
26-APR-2004	000-00000-00-0000-10000	-20.00	510365		Sales order issue

Item: 510365
 Description: BROMELAIN - 5X1000 ml
 Revision:
 Account: 000-00000-00-0000-10000-0000-00000000000-00000-00000

UOM: Ea
 Quantity: -1.00
 Unit Cost: 20.00000
 Value: -20.00

7.3 Inv Valuation Account ..Contd..

The screenshot shows the Oracle Material Transaction Distributions (DMD) window. The window title is "Material Transaction Distributions (DMD) - 20996040". The window contains a table with the following columns: Transaction Date, Accounting Type, Transaction Source Type, Transaction Source, UOM, and Primary Quantity. The table has two rows of data:

Transaction Date	Accounting Type	Transaction Source Type	Transaction Source	UOM	Primary Quantity
26-APR-2004	Account	Sales order	42.DMD Regular Ord	Ea	1.00
26-APR-2004	Inv valuation	Sales order	42.DMD Regular Ord	Ea	-1.00

Below the table, there is a summary section with the following fields:

Item	510365	UOM	Ea
Description	BROMELAIN - 5X1000 ml	Quantity	-1.00
Revision		Unit Cost	20.00000
Account	000-00000-00-0000-10000-0000-0000000000-0000	Value	-20.00

7.4 INV Valuation Account Setup on the Subinventory Level:

The screenshot shows the Oracle Inventory Valuation Account Setup window for a subinventory. The window title is "Subinventories Summary (DMD)". The main form contains the following fields:

- Name: **R_STOCK**
- Description: **DMD Regulated Stock Subinventory**
- Status: **Active**
- Default Cost Group: **DMD**

Below these fields are two tabs: "Main" and "Accounts". The "Accounts" tab is selected, showing a list of valuation accounts with their corresponding account numbers:

Account Name	Account Number
Material	000-00000-00-0000-10000-0000-00000000
Outside Processing	000-00000-00-0000-10000-0000-00000000
Material Overhead	000-00000-00-0000-10000-0000-00000000
Overhead	000-00000-00-0000-10000-0000-00000000
Resource	000-00000-00-0000-10000-0000-00000000
Expense	000-00000-00-0000-10000-0000-00000000
Encumbrance	

At the bottom of the window, there are two buttons: "Item / Subinventory" and "Logators".

8.0 Check the Profit made on this sale

Run the Cost Profit Margin Analysis Report on this Order

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File Edit Format Help

ARC - Global Master                               Margin Analysis Report

  Operating Unit:  ARC Operating Unit
  Sort By:        Item
  Items From:     510365
  To:             510365
  Category Set:   ARC_PO_INV
  Categories From:
  To:
  Margin Percentage From:
  To:
  Cost Type:
  Currency:       USD
  Exchange Rate:  1
  Customer Type:  Sold to Customer
  Sales Representative:
  Customer Name:
  Sales Channel:
  Industry:
  Territory:
  Date From:
  Date To:        26-APR-04
0

ARC - Global Master                               Margin Analysis Report
Sort by Item+                                     Summary From      To      26-APR-04 ( USD )
  Items From: 510365
  To:         510365

Model/Item  Description                UOM Category      Average      Average      Quantity      Quantity      Sales Revenue  Cost of
-----
510365      BROMELAIN - 5X1000 ml      Ea  UNSP-UNSP-UNSP-  21.00000    20.00000      1.00          1.00          21.00
Report Total:                                     21.00

***** End of Report *****
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Margin Analysis Report ...Contd...

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File Edit Format Help

Margin Analysis Report

Report Date: 26-APR-2004 13:33

Rating Unit

INV

Customer

04

Summary From Margin Analysis Report To 26-APR-04 (USD)

Report Date: 26-APR-2004 13:33
Page: 1

UOM Category	Average Unit Price	Average Unit Cost	Quantity Invoiced	Quantity Shipped	Sales Revenue	Cost of Goods Sold	Margin	%
Ea UNSP-UNSP-UNSP-	21.00000	20.00000	1.00	1.00	21.00	20.00	1.00	4.8
Report Total:					21.00	20.00	1.00	4.8

***** End of Report *****

About the author – Brijesh Bharat, PMP has more than 14 years of IT experience with 11 years of dedicated experience in Oracle Applications. He has helped many clients including Honeywell, AT&T, Cingular, Lucent Technologies, Fellowes, Welch's and American Red Cross to achieve their business objectives. He is currently working as an independent consultant specializing in Oracle E-Business Supply Chain solution.