



Specialized. Recognized. Preferred.

The right partner makes all
the difference.

A Single Ledger Approach to GASB 34 Compliant Asset Processing

By: Terry DeMars & Loretta Neumann

AST Corporation

March 17, 2014

Applications Software Technology Corporation

1755 Park Street, Suite 100 | Naperville, Illinois 60563 | 1.888.278.0002 | www.astcorporation.com

Contents

INTRODUCTION	1
MODIFIED VS FULL ACCRUAL ACCOUNTING FOR CAPITAL EXPENDITURES	1
THE CHALLENGE	1
BUDGETS AND FUNDS CONTROL.....	2
TRANSFERRING THE COST OF CAPITAL PURCHASES TO ASSETS	3
ASSET ACCOUNTING DESIGN AND CONFIGURATION	3
FINANCIAL REPORTING	4
SUMMARY	5

Introduction

Configuring Oracle to support GASB 34 compliant capital asset accounting and reporting previously required the configuration and maintenance of two ledgers (Modified and Full Accrual). This paper presents an alternative, single ledger approach that leverages a Concurrent Request Set and Subledger Accounting to produce GASB compliant accounting and reporting. It will discuss the underlying challenges and configuration steps to achieve the required reporting in a single ledger.

This paper will provide examples from public sector organizations and discuss how their specific requirements were fulfilled to support the validity of the solution.

MODIFIED VS FULL ACCRUAL ACCOUNTING FOR CAPITAL EXPENDITURES

Organizations using Modified Accrual accounting treat capital expenditures as period expenses while those using Full Accrual accounting record the expenditure as capital assets with depreciation of the assets over the useful life of the asset. Public sector organizations may initially record capital expenditures as period expense and subsequently move the expenditure amount to a capital asset account, at which time they begin depreciating the asset over its useful life.

THE CHALLENGE

Public sector organizations that require GASB 34 compliant asset management often have the following challenges:

- The organizations budget for and purchase against capital expense natural accounts with Account Type of *Expense*. This is the Modified Accrual element of the capital acquisition process.
- Funds control has to be configured to check actual capital expenses against available budget at the time of purchase.
- Purchased capital assets are treated as period expenses.
- Purchased capital assets had to be capitalized and depreciated in Oracle. This is the Full Accrual element of the capital acquisition process.
- Native Oracle functionality requires use of a clearing account with Account Type of *Asset* in the accounting distribution of both the purchase order and matched supplier invoice for the Create Mass Additions process to recognize and move relevant acquisition data to Oracle Assets.

- The Fund (Balancing Segment) value in the purchase order distribution may or may not be the Fund value required for the capital asset accounting distribution in Oracle Assets.

The challenge was to create, using standard Oracle functionality, the simplest-possible design that would accomplish the following:

- Support budgeting and funds control against capital expense accounting distributions with Account Type of *Expense*.
- Use capital expense accounting distributions with Account Type of *Expense* on matched supplier invoices and successfully transfer those transactions to Oracle Assets.
- Support both Modified and Full Accrual financial reporting.
- • Potentially record a different Fund value in Oracle Purchasing and Payables for capital purchases than the Fund value used when the asset is recorded in Oracle Assets.

This paper will discuss the major configuration designs for funds control, the Create Mass Additions process, asset accounting and financial reporting implemented to meet each of these challenges.

Budgets and Funds Control

The public sector clients in this case study created capital expense budgets to support the acquisition of capital assets. The following budgetary control design elements were configured to prevent either general or project-specific funds control violations.

- Parent-child funds control related hierarchies for cost center and natural account segment values in the Oracle General Ledger module.
- Funds control specific Roll-up Groups assigned to designated cost centers and natural account parent values in the General Ledger.
- Two Summary Templates specifically configured to leverage defined roll-up groups to control the use of funds for non-personnel and personnel-related expenditures. Capital expenditures fall under the non-personnel Summary Template for funds control.
- Project-specific budgets and budgetary controls in the Oracle Projects module.

Purchased assets are subject to funds check in the Oracle Purchasing module based on budgetary controls defined in the General Ledger. All costs related to construction of capital assets are recorded in Oracle Projects and are subject to budgetary controls established in the Oracle Projects module. Additionally, items purchased specifically for constructed capital assets are also subject to the General Ledger funds control.

Transferring the Cost of Capital Purchases to Assets

As stated earlier, supplier invoices for capital asset expenditures use accounting distributions with expense type natural account values rather than clearing asset type natural account values. The standard Create Mass Additions process will not transfer supplier invoices with expense type natural accounts to Oracle Assets using the out-of-the-box Create Mass Additions process alone. To address this issue, working with Oracle Support, a custom Concurrent Request Set was developed with seven seeded Oracle programs. The programs are listed below in the precise order of execution along with a brief description of their purpose.

Concurrent Request Set

- Invoice Validation – Validates key invoice data and sets flag to allow invoice to be accounted and paid.
- Create Accounting – Creates subledger accounting journals.
- Update Asset Tracking Flag – Automatically checks the Track as Asset flag for all invoice distributions containing object codes in a predefined range of values for recording capital expenditures.
- Transfer Journal Entries to GL – Transfers subledger journals to the General Ledger and optionally posts those journals.
- Mass Additions Create – Creates lines in the mass additions table.
- Mass Additions Create Report – Lists the lines that were created by the Mass Additions Create process.
- Update Asset Type – Changes the asset type from Expensed to Capitalized or CIP for each expensed asset within the range of accounts brought into Oracle Assets by the Mass Additions process.

Each program listed has pre-defined parameters. The *pre-defined range of values* refers to the relevant list of capital expenditure natural accounts that may be moved to Oracle Assets. After running this Concurrent Request Set, Oracle Payables lines with capital expense account distributions will be moved to the Mass Additions table for processing within Oracle Assets.

ASSET ACCOUNTING DESIGN AND CONFIGURATION

Typically, when a capital asset is created in Oracle Assets, a debit to an asset cost natural account with an Account Type of *Asset* and a credit to an asset clearing natural account, also with an Account Type of *Asset* is generated by the seeded Oracle Subledger Accounting Definitions for Oracle Assets. The source of the natural accounts in the seeded

definition is the default values in the Asset Category assigned to the asset during the Mass Addition preparation process. Oracle intrinsic validation requires that the natural account assigned to the cost and accrual accounts in the Asset Category form have an Account Type of *Asset*. Attempts to select a natural account value with any other Account Type will trigger an error message.

The public sector clients required the use of a single constant natural account value that had an Account Type of *Owners' Equity* for the credit side of the accounting entry generated upon addition of a capital asset in Oracle Assets. One client had two different sources of purchased assets:

- Asset created through purchases within Oracle.
- *Constitutional* assets purchased externally and added manually to Oracle Assets.

Slightly different solutions were created for each client because of the differences described above. A Descriptive FlexField (DFF) was defined for this client to allow users to enter the value *CONSTITUTIONAL* for assets purchased outside of Oracle. User-defined Subledger Accounting Definitions were created for each organization that generated their individually-desired natural account value for only those asset transactions that met the following conditions:

Client 1

- Project Identifier *IS NULL* and
- Invoice Number *IS NOT NULL*

Client 2

- Project Identifier *IS NULL* and
- Invoice Number *IS NOT NULL* or Asset Category Attribute20 = *CONSTITUTIONAL*

Both clients opted to use the Expense Account entered during the Mass Additions preparation process to designate the desired Fund value for each asset to be used for asset cost, depreciation and accumulated depreciation journal lines. No additional changes to the Subledger Accounting Definitions were required to properly populate the Fund value in the asset accounting entries.

Financial Reporting

Since the financial design consisted of a single ledger, both Modified and Full Accrual capital asset expense journal lines exist in one ledger. However, the capital expense natural accounts were distinct from the depreciation natural accounts, so they could easily be identified and used for financial reporting purposes.

Oracle's seeded Financial Statement Generator was used to create the financial statements based on reporting definitions provided the client.

Summary

In the past, challenges faced by public sector organizations to support Modified Accrual and Full Accrual capital asset transactions in Oracle would have been met by a multi-ledger design. Now there is a potential single ledger design, which incorporates the following configuration elements, that has proven to be a successful alternative to GASB 34 compliant asset processing.

- Budget and funds control configuration options to support the purchase of capital assets against a capital expense budget.
- A user-defined Concurrent Request Set that allows Oracle Payables lines with capital expense accounting distributions to be moved to Oracle Assets.
- Changes to the Subledger Accounting Definitions to generate the requisite asset cost, depreciation and accumulated depreciation journal lines.
- The use of Financial Statement Generator to create the mandatory Modified and Full Accrual financial statements.

Individual business requirements for each client may still dictate the use of multiple asset books and multiple ledgers but the single ledger approach should be considered as a possible viable alternative before moving to alternative options.



A Single Ledger Approach to GASB 34 Compliant Asset Processing
March 17, 2014

AST Corporation
1755 Park Street, Suite 100
Naperville, Illinois 60563

Phone: 888-278-0002
Fax: 630-778-1179
www.astcorporation.com

Copyright © 2014 AST Corporation

AST Corporation is a privately held company founded in 1995 to serve commercial and public sector organizations in utilizing the full potential of their investment in Oracle Applications and Technologies. We have built our practice by providing top quality full life cycle and turn-key consulting services for Oracle Applications implementation and upgrade projects, among other specific services.

Our mission is to insure that you, as a valued client, receive the highest level of expertise and personalized service for your Enterprise Applications. We endeavor to help you realize the full benefit from your investment in software applications and integrate them seamlessly to your business processes.