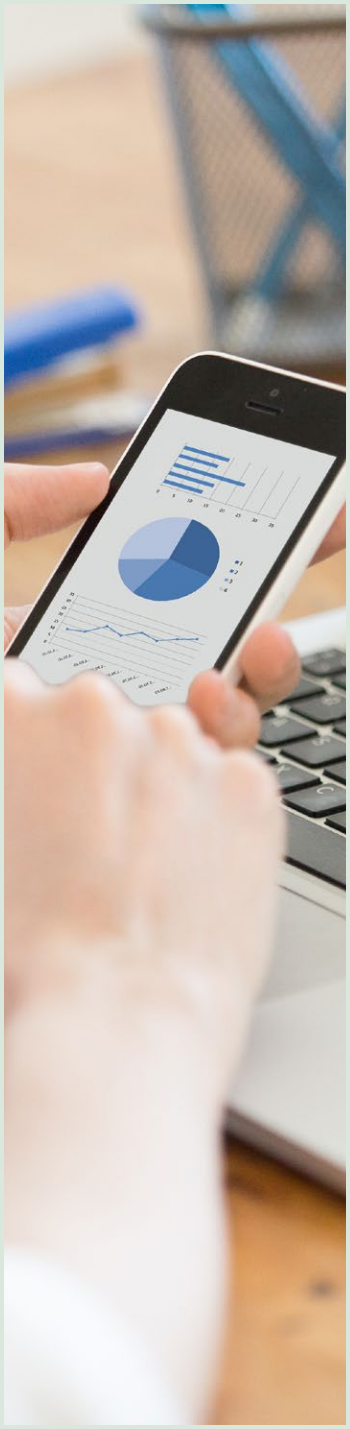
WHITE PAPER



INTRA-COMPANY TRANSFER OF MATERIALS – AN INVENTORY-TO-ACCOUNTING PERSPECTIVE

Abstract

The movement of materials within a business unit in an enterprise is an important part of inventory and accounting transactions. The financial and logistics impact of each transfer varies depending on several factors such as the number of people involved, the need for invoicing, number of accounting transactions and the org structure within the business unit. This paper looks at the different types of intracompany transfers and the accounting transactions generated from each of them. It also explains an approach to optimize the high number of accounting transactions.

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Introduction

Intercompany transactions form a major part of the inventory and accounting transactions for a multi-country or multi-location enterprise. There are many ways in which materials are transferred from one company to another. Further, each transfer impacts inventory and accounting transactions in unique ways.

Intercompany transactions refer to movement within a business unit or area (intra-company) as well as across business units or areas (inter-company). Intercompany transactions are a common process in most Oracle Cloud implementations. The transfer of material from one organization to another triggers a set of accounting transactions that vary based on the type of transaction.

A typical transfer includes processes like transfer orders, inter-organization transfer and account alias transactions. This paper compares each process from both logistics and financial perspectives for intracompany as well as intercompany transfers.

Intracompany transfers

A single business unit is said to have multiple organizations when:

- The business unit has separate locations within one country, and inventory in each location is maintained separately
- The business unit has a single location in a country but inventory is maintained separately. For example, different stock for raw materials, work in progress (WIP) and FG for shipments are stored at different locations and are tracked differently

Each of the organizations described above is mapped as a separate sub-inventory within the enterprise. In intracompany transfers, the material is transferred between two such organizations or sub-inventories.

The cost for the transfer is maintained at the cost organizational level, which can only be one per business unit. However, this cost is shared between all the organizations of the business unit. Further, since all transactions are executed within a single business unit, no invoices are generated and there is no accounting in terms of payment.

Transfer orders are multi-step processes that involve many parties for the transfer of materials. In some cases, these are bulk orders raised for a quarter based on material planning. These plans set certain quarterly targets for both manufacturing and logistics for material transfer. Visibility is important so that the planning team can view planned as well as actual material movement. However, this is a time-consuming process because there are multiple steps to execute. The planner must create the transfer order, warehouse users must block the stock and move it into shipping area, the logistics provider must load the material onto the trucks, and finally the receiving operator must accept the material at the target organization.

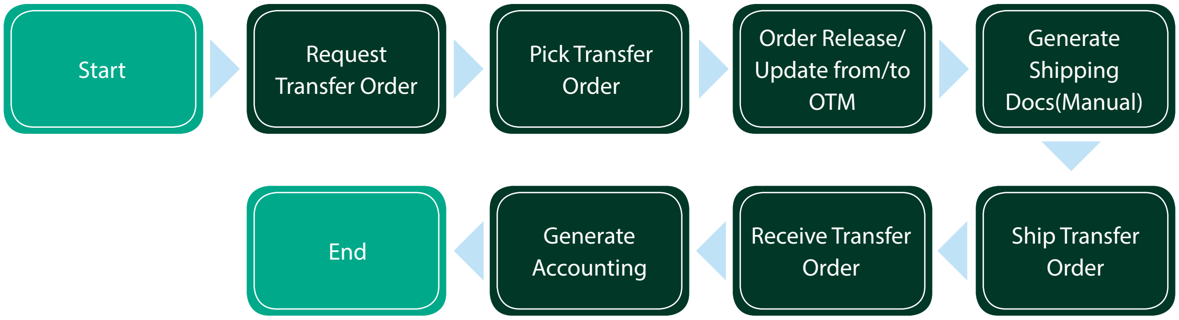

Fig 1: Typical workflow for intracompany transfer order process with transportation planning

Despite involving many parties, this process can be executed seamlessly when shipments are planned using transportation tools

Event	Class	Dr	Cr
Transfer order receipt from in-transit	Inventory valuation	XX	
Transfer order receipt from in-transit	Receiving inspection		XX
Trade in-transit issue	Inter-organization receivables	XX	
Trade in-transit issue	Trade in-transit valuation		XX
Trade in-transit receipt	Trade in-transit valuation	XX	
Trade in-transit receipt	Trade clearing		XX
Transfer order shipment to in-transit	Trade in-transit valuation	XX	
Transfer order shipment to in-transit	Inventory valuation		XX
Transfer order receipt	Receiving inspection	XX	
Transfer order receipt	Trade in-transit valuation		XX
Trade receipt accrual	Trade clearing	XX	
Trade receipt accrual	Inter-organization payables		XX

Table 1: Overview of the accounting transactions generated from an intracompany transfer order cycle

Table 1 indicates the high number of accounting transactions involved in intracompany transfers, which result in longer reconciliation times. This raises a key concern: is it necessary to have such a high number of transactions, when each transaction is reconciled within a business unit and legal entity?

Intercompany transfers

Intercompany transfer is another type of material movement between organizations. This can be either a one-step or two-step process depending on whether a receiving transaction is required at the point of material receipt. Intercompany transfers are used when there is a single set of users in the shipping organization and there is no need for transportation planning. It is also useful when both the organizations are in different buildings or different floors of a building or there are trial transactions between the two organizations.

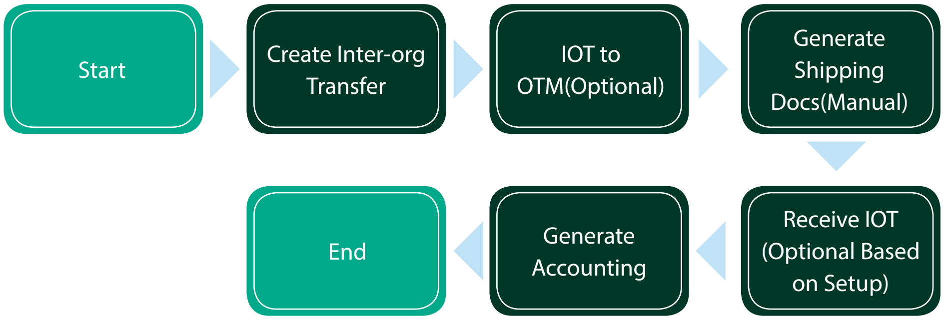

Fig 2: Typical workflow for intercompany transfer order process

Event	Class	Dr	Cr
Receipt from in-transit	Inventory valuation	XX	
Receipt from in-transit	Receiving inspection	XX	
Receipt from in-transit	Transfer price variance	XX	
Receipt from in-transit	Receiving inspection		XX
Receipt from in-transit	Transfer price variance		XX
Trade in-transit issue	Inter-organization receivables	XX	
Trade in-transit issue	Trade in-transit valuation		XX
Trade in-transit receipt	Trade in-transit valuation	XX	
Trade in-transit receipt	Trade clearing		XX
Shipment to in-transit	Trade in-transit valuation	XX	
Shipment to in-transit	Inventory valuation		XX
In-transit receipt	Receiving inspection	XX	
In-transit receipt	Trade in-transit valuation		XX
Trade receipt accrual	Trade clearing	XX	
Trade receipt accrual	Inter-organization payables		XX

Table 2: Accounting transactions generated from an inter-organizational transfer

As in the previous case, a key question here is whether these many accounting entries are needed for a two-step transfer process when the transactions are done in a single legal entity and business unit.

Reducing the number of the transactions using account alias

Using an account alias can help reduce the number of accounting transactions generated during the transfer process. Thus account alias issue takes place at the shipping organization and the account alias receipt at the receiving organization. This approach succeeds when minimal personnel are involved or when conducting milk runs, logistics dependency and transportation planning is not required.

A disadvantage of this approach is the inability to link issue and receipt, which can increase the risk of missed deliveries. However, if the transfer involves lot or serial-controlled items, then tracking becomes easier. Transactions can be mapped to different inventory transaction types. They can also be monitored using reports. Since the items cannot be used in future transactions if they are not received, it becomes mandatory to complete the transfer lifecycle.

The transaction references are used to map issue and receipt transactions. Enterprises can also consider implementing a program for receipts that is triggered manually based on the list of account alias issue transactions.

Event	Class	Dr	Cr
Account alias issue	Inventory valuation		XX
Account alias issue	Offset	XX	
Account alias receipt	Inventory valuation	XX	
Account alias receipt	Offset		XX

Table 3: Overview of the accounting transactions generated from a transfer order cycle using account alias

This approach has been evaluated across several implementations in order to control the number of accounting entries.

Reducing the number of organizations using Oracle

Another common concern is whether enterprises really need a separate organization when the shipment process involves minimal personas or when trial processes are involved?

Here, enterprises can designate a unique set of sub-inventories and map them separately using a specific sub-inventory type. However, in case of a sub-inventory transfer transaction, there is no way to identify whether the material is received on the other side. This poses a risk of mismatch of inventory quantities between both sub-inventories. In most cases, no accounting transactions are generated because the same valuation accounts are used for both sub-inventories. Oracle provides a way to simplify this accounting based on sub-inventories. In such cases, accounting transactions are generated.

While each of the above approaches has advantages and disadvantages, the applicability depends on various factors such as:

a. Personas involved in the whole shipping process

b. Transportation planning for logistics

c. Segregation of accounting entries

d. Creation of separate organizations or different sub-inventories within a single organization

About the author

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Arijit works as a Principal Consultant with Infosys. He has more than 17 years of IT experience in consulting, project management and pre-sales. His expertise includes Oracle Cloud as well as applications for supply chain management and procurement. He has vast implementation experience with global clients in North America, Europe and Asia. Arijit acts as a solution anchor in major RFPs and for hi-tech industry solutions where he develops go-to-market strategies for platform-based solutions. He is also a reviewer of tools and accelerators for Oracle Cloud.

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