



CONFIGURING ORACLE HRMS FOR GENERAL LEDGER ACCOUNTING OF PTO ACCRUAL

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About the Author

- ***Modupe has over 25 years of experience in Financial processes, of which 15 years are of Oracle Applications implementation experience. The last 10 years specializing in Oracle HR, Payroll, SSHR, OAB, OSB, OTL, and Oracle Projects - Version 10.7, through Release 12. He has assumed the role of lead consultant and as consultant on a functional level for several Oracle application implementations.***



About the Author

- ***Modupe has extensive knowledge of business process and setting up of best business practices in a variety of industry segments. He has worked with multiple currencies and multiple pay rates in very complex situations and designed elegant solutions. He has conducted training for the user community as well as communicated with all levels of management.***



About the Co -presenter

- ***Lisa Laine is the VP of HCM Solutions for Solution Beacon and is responsible for managing Human Capital Management E-Business Suite Projects. She has 14 years experience with the Oracle HCM suite - Version 10.7, through Release 12.***



1. Introduction

1.1 Scope

- There are 2 dimensions to the title of this white paper:
 - (i) PTO or Paid Time Off Accrual
 - (ii) General Ledger Accounting for the Accrued Paid Time Off



- **The first dimension, Paid Time Off (PTO) accrual has been extensively covered in the past by a number of white papers**
- **The focus of this white paper is on the second dimension – General Ledger Accounting for the accrued PTO**

1.2. Definitions

- **Accrual**

Ordinary English definition of accrual is the process of accumulation by increment usually at a defined rate.

- **Paid Time Off (PTO)**

PTO is a feature in employees agreement that provides a resource of hours that employees can draw from to take time off from work and still get paid for those time taken. Common examples of this are vacation PTO or Sick *PTO*



- **Paid Time Off Accrual**

PTO Accrual is therefore the process by which employees accumulate by increment, resource of hours that they can draw from to take time off from work and still get paid for the time taken off



1.3. Accounting Concept of Accrual

- **Accrual is also an Accounting Concept**
- **It is a method of accounting that recognizes expenses when incurred and revenue when earned rather than when payment is made or received**
- **Fundamental Accounting Principles require organizations to follow Accrual Method of Accounting**



1.4. When is PTO Expense Incurred

- From the definition of PTO Accrual, the expense of employees PTO is incurred at the time of accrual



1.5. Common Practices for PTO Accrual

- **Most organizations accrue PTO Hours and credit them to a bank for use by employees without assigning a dollar value to the hours accrued**
- **Most organizations account for PTO in the books when employees take the time off and get paid because this is the time a dollar value is assigned to the time taken**
- **This is a violation of Fundamental Accounting Principles resulting in the omission of employees related liabilities in the balance sheet at financial period ends**



1.5. Common Practices for PTO Accrual

- Many organizations mitigate for this violation by aggregating PTO balances of employees at financial period ends and multiplying by employees pay rates to determine the amount to accrue for this item at the period end dates, usually on a manual basis.



1.5. Common Practices for PTO Accrual

- **Many organizations mitigate for this violation by aggregating PTO balances of employees at financial period ends and multiplying by employees pay rates to determine the amount to accrue for this item at the period end dates, usually on a manual basis.**
- **In situations where cost or responsibility center accounting is done, the period end accrual does not adequately provide a means to include the employees PTO accrual in the total cost of a cost or responsibility center**



1.6 Objectives

The Objectives of this paper are:

- **Provide an explanation of the configurations necessary to enable organizations using Oracle HRMS to comply with the accrual principle of accounting for labor costs with regards to PTO accrual**
- **Eliminate the need for manual accrual for employees outstanding PTO at the end of accounting periods**
- **Where required, provide a basis for calculation of PTO pay rates on a FIFO basis.**



2. Configuring HRMS for PTO GL Accrual

2.1 General Design Concept

- **The core of the design concept is to maintain a payroll balance that tracks the dollar value of the PTO hours outstanding for each employee. This is equivalent to a subsidiary record within the payroll system for the PTO Liability Balance in the General Ledger**
- **The balance is fed by the dollar values of the PTO hours taken by the employees. At period ends (pay periods or month ends), the dollar value of the period accrual is calculated in a fast formula and fed to this.**



- **Period accrual dollar value is calculated as the difference between the payroll balance dollar value before the period end payroll run and the dollar equivalent of employee PTO Balance (PTO Balance X Pay Rate)**
- **A recurring PTO Employer Liability element with a standard link to all employees eligible for the PTO Accrual is created. The element runs the formula that does the calculation of the periodic PTO dollar amounts**
- **Employees would still be paid by the usual PTO Earning element**



- **The PTO employer liability element is costed the same way as other employer liability elements except for the account segment which should indicate the PTO expense account**
- **The balance (Offset) of the costing for the PTO employer liability element should be a liability account in the balance sheet**
- **The PTO earning element should be fixed costed to the liability account used for the costing of the PTO employer liability element above.**



2.2 Configuration

2.2.1 Create the PTO Employer Liability Element e.g Vacation Accrual

Essential features of the employer liability element are:

- Recurring
- Costed to an expense account with the offset to a balance sheet liability account. Where cost center distribution is used, costing of this element should follow the cost center distribution
- Standard Linked to all employees eligible for the PTO Accrual





- **The PTO Earning element eg Vacation Hours should be fixed costed to the Liability account used as the balancing (offset) for the PTO Employer Liability Element**
- **Create the Vacation Accrual Balance and related Balance feeds and dimensions.**
- **Slides 22 – 27 show the screen shots of highly simplified setup example**



Create the Vacation Accrual Element

Element

Name: Reporting Name:

Description:

Primary Classification: Benefit Classification:

Effective Dates
From: To:

Processing

Standard | Advanced | Advance Pay | Recalculation | Proration

Type
 Nonrecurring
 Recurring

Termination
 Actual Termination
 Final Close
 Last Standard Process

Multiple Entries Allowed
 Additional Entry Allowed
 Closed for Entry
 Process in Run
 Once Each Period
 Indirect Results(K)
 Adjustment Only(J)
 Third Party Payment

Priority:

Skip Rule:

Currency
 Input:
 Output:

Qualifying Conditions
 Age:
 Length of Service:
 Units:

Standard []

Further Information:

Input Values | Balance Feeds | Balance Feed Control(z) | Frequency Rules(q)
 Exclude Balances | Iterative Rules(Q) | Extra Information(g) | Usages





Link the Vacation Hours (Earning) Element

Element Link

Element Name:
 Description:
 Classification: Standard

Processing Type
 Recurring
 Nonrecurring

Eligibility Criteria

Organization: Job: Grade:
 Employment Category: Salary Basis:
 Group: Position: Location:
 Payroll: Link To All Payrolls

Costing | Qualifying Conditions | Miscellaneous

Costable Type
 Not Costed (A) Fixed Costed
 Costed Distributed

Distribution Set: Transfer To GL
 Costing: 1.236100.000.000000.00
 Balancing: 1.231110.000.000000.00

Create in Batch Mode

Link Status:





Link the Vacation Accrual (Employer Liability) Element

Element Link
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Element Name

Description

Classification Standard

Processing Type

Recurring

Nonrecurring

Eligibility Criteria

Organization <input type="text"/>	Group <input type="text"/>
Job <input type="text"/>	Position <input type="text"/>
Grade <input type="text"/>	Location <input type="text"/>
Employment Category <input type="text"/>	Payroll <input type="text" value="LA Payroll"/>
Salary Basis <input type="text"/>	<input type="checkbox"/> Link To All Payrolls

Costing
Qualifying Conditions
Miscellaneous

Costable Type

Not Costed (A) Fixed Costed

Costed Distributed

Distribution Set Transfer To GL

Costing

Balancing

Create in Batch Mode

Link Status





Define Balance

Balance: 01-JAN-2011

Name: Vacation Accrual

Reporting Name: Vacation Accrual Category: Employer Liabilities

Base Balance: Units: Money

Currency: USD Use For Remuneration []

Gross Up

Primary Balance

Element: Input Value:

Feeds Classifications Dimensions

Initial Feed Attributes





Define Balance Feeds

Balance Feeds(Vacation Accrual): 01-JAN-2011

Element Name	Classification	Input Value Name	Add or Subtract	Effective Dates From
Vacation Accrual	Employer Liabilities	Pay Value	Add	01-JAN-2011
Vacation Hrs	Earnings	Pay Value	Subtract	01-JAN-2011



Define Balance Dimensions

Name	Description	Grossup Balance	Status
Assignment within Government Reporting Entity Run	Summed data for ASSIGNMENT WITHIN G	<input type="checkbox"/>	
Assignment within Government Reporting Entity Lifetime to Date	Summed data for ASSIGNMENT WITHIN G	<input type="checkbox"/>	
		<input type="checkbox"/>	
		<input type="checkbox"/>	
		<input type="checkbox"/>	

- As a minimum, you require the 2 dimensions below:
 - (i) Assignment within Government Reporting Entity Run
 - (ii) Assignment within Government Reporting Entity Lifetime to Date





2.2.4 Create Vacation Accrual Fast Formula

Among other features, the formula should do the following:

- (a) Use the standard `get_net_accrual` function to fetch the PTO balance as at the period end date

- (B) Calculate the dollar value of the PTO balance by multiplying the balance in (b) above by the employee pay rate

- (C) Determine the dollar value of periodic accrual by deducting the Value of the Vacation Accrual `Life_to_date` balance from the value in (b) above



(d) The next slide shows a sample of a highly simplified formula required for the calculation

- Default for VACATION_ACCRUAL_ASG_GRE_LTD is 0
- DEFAULT FOR PAY_PROC_PERIOD_END_DATE IS '02-JAN-4712' (DATE)
- Default for ASG_SALARY IS 0
- DEFAULT FOR ACP_SERVICE_START_DATE is '02-JAN-4712' (DATE)

- Current_Dollar_Balance = VACATION_ACCRUAL_ASG_GRE_LTD
- Hire_Date = ACP_SERVICE_START_DATE

- p_calculation_date = PAY_PROC_PERIOD_END_DATE
- p_plan_id = 0 /* this is a default. Plan Id for the accrual plan must be identified and used*/
- Reset_Bal = 0
- Accrued_Hours = 0

- p_accrual_start_date = Add_Days((Add_Years(p_calculation_date,-1)),1)
- IF p_accrual_start_date < Hire_Date THEN
- p_accrual_start_date = Hire_Date

- Accrued_Hours = get_net_accrual(
 - p_calculation_date,
 - p_plan_id,
 - p_accrual_start_date,
 - Reset_Bal)

- Rate = ASG_SALARY

- Accrued_Dollars = Rate * Accrued_Hours

- Current_Period_Accrued_Amount = Accrued_Dollars - Current_Dollar_Balance

- Return
- Current_Period_Accrued_Amount



2.2.5 Create the Formula Results Rule

- **Create the formula Result Rule for the Vacation Accrual Element using the VACATION_ACCRUAL Fast Formula**
- **Screen shots below show the setup of the Formula Results Rule**



Formula Result Rules: 01-JAN-2011

Element

Name: Classification:

Description:

Processing Rules

Name	Formula	Effective Dates From	Effective Dates To
Standard	VACATION_ACCRUAL	01-JAN-2011	

Formula Results

Name	Type	Element	Input Value	Units	Message Severity
CURRENT_PERIOD	Direct result		Pay Value	Money	



2.2.6 PTO Pay Rate on FIFO

- **Some organizations pay PTO taken by employee at the pay rate applicable at the time the PTO was accrued on FIFO basis**
- **Tracking pay rate at the time of PTO accruals to use for payment when PTO is taken is cumbersome and nearly impossible**
- **Same objective can be achieved by determining pay rate as $\text{Vacation Accrual LTD Balance} / \text{PTO Balance outstanding}$**
- **To achieve this, insert the clause in the next slide in the appropriate place in the formula for PTO Earning element**



- Default for VACATION_ACCRUAL_ASG_GRE_LTD is 0
- DEFAULT FOR ACP_SERVICE_START_DATE is '02-JAN-4712' (DATE)
-
- $\text{Current_Dollar_Balance} = \text{VACATION_ACCRUAL_ASG_GRE_LTD}$
- $\text{Hire_Date} = \text{ACP_SERVICE_START_DATE}$
- $\text{p_calculation_date} = \text{PAY_PROC_PERIOD_END_DATE}$
- $\text{p_plan_id} = 0$ /* this is a default. Plan Id for the accrual plan must be identified and used*/
- $\text{Reset_Bal} = 0$
- $\text{Accrued_Hours} = 0$
- $\text{p_accrual_start_date} = \text{Add_Days}(\text{Add_Years}(\text{p_calculation_date}, -1), 1)$
- IF $\text{p_accrual_start_date} < \text{Hire_Date}$ THEN
- $\text{p_accrual_start_date} = \text{Hire_Date}$
- $\text{Accrued_Hours} = \text{get_net_accrual}(\text{p_calculation_date}, \text{p_plan_id}, \text{p_accrual_start_date}, \text{Reset_Bal})$
- $\text{Rate} = \text{Current_Dollar_Balance} / \text{Accrued_Hours}$

Questions



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