



Do More with Less:

Automate Deductions Management using
Accounts Receivable Deductions Settlements

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Abstract

Most deductions are authorized, so how can you collaborate with your customers and get them resolved faster? Get in control of your deductions with simple tracking techniques, automate using rules based settlements and prevent unauthorized deductions. Learn how Channel Revenue Management can be used to manage all types of deductions from Accounts Receivables. This paper will go over several case studies on how various types of deductions were managed and resolved using the features available with the product.

What are Deductions?

A customer takes a deduction when a payment is made on an amount less than the net invoice. Deductions can be taken in two ways: either as a short payment on an invoice where the amount remitted against the invoice is less than the balance due, or the items listed are debited on cash remittance details which can be related to multiple invoices or related to a different agreements not tied to invoicing.

Example of Deductions

Check Amount: \$1,550

Invoice #	Amount Due	Amount Paid	Reason	Reference
12345	\$1,000	\$1,000		
13456	\$1,250	\$1,050	PRICING	PR1001
DM4567	-	-\$500	PROMO	RB1001

In the above example, the customer has taken a deduction of \$200 against Invoice 13456 as a short pay against that Invoice which could be due to a pricing issue. Another deduction of \$500 was taken, which is not related to either of the invoices and is referenced to a rebate due to the customer.

Why Deductions are taken

Deductions can be taken for a number of reasons and in some industries taking a deduction is an acceptable form of making payments to customers for certain pre-agreed terms like a promotion or rebate. In some industries where deductions do exist in large numbers, most deductions are still considered to be valid.

Below are some of the reasons customers most often take deductions:

- Promotional allowance
- Pricing errors
- Shipping issues/damages
- Freight charges
- Bank charges
- Incorrect taxes
- Audit compliance
- Any other invoicing disputes or charges

The process of resolving deductions can be demanding. The first step is to make sure it gets assigned to the right analyst for research. When entering a receipt, resolving the deduction may not happen immediately, which requires an analyst to park the deduction and handle it at a later point. Most customers will provide a reason and some reference for why the deduction was taken; this information needs to be captured at the time of the cash application along with the deductions so it can be used to speed up the research process and facilitate collaboration with the customers to identify the reasons.

Without a Deduction Management Solution, customers would typically do the following – For short payments, they would apply the paid amount and leave the invoice open with the remaining balance. For deductions taken on the receipt, they would create a debit memo to record the deductions and a credit memo to pay the short pay and apply the payment in receipts in full.

When this process is manual, it takes up a considerable amount of involvement in the cash application process to create these credit and debit memos, which results in missing information and are prone to user errors. It also makes it difficult to filter the true invoices that are due for collection that could have a valid deduction against them. When the payments are made through lockbox it makes it even harder to reconcile since all the debit items will result in unidentified debits, and all the valuable reasons and references provided by the customers could be lost.

Deduction Management Solution

The E-Business suite provides a Deduction Management Solution consisting of Account Receivables and Channel Revenue Management modules. Payments coming in through the Receivables module are applied to the outstanding invoices and any short payments or deductions taken by customers. They are then recorded and sent to Channel Revenue as a Claim Investigation.

Receivables allow for deductions to be created at the time of cash application from the receipt application form or through the Lockbox process. In both modes, deductions can be created against an Invoice, which are called Invoice Deductions, or deductions can be applied to a receipt, which are called Claim Investigations or Non-Invoice deductions. Both Invoice and Non-Invoice Deductions allow for a reason and customer reference to be captured along with any additional information captured in the Receipt application flexfields, resulting in a Claim/Deduction being created in Channel Revenue with these information flowing through.

When an Invoice Deduction is created it puts the Invoice in dispute with a note created along with deduction number. This information makes it useful for collection as the collector gets the visibility of the deduction numbers and helps distinguish between an overdue invoice v/s an invoice that has a balance and is under research. It also enables these invoices to be seen separately on aging reports.

Claim Investigations are the activities in Receivables to capture non-Invoice deductions. It allows for these deductions to be tracked in an account different from Receivables. Claim Investigations can be used to create Overpayments as well. Claims Investigations allow capturing the same set of reasons and references that can be captured on an Invoice deductions and results in a Channel Revenue claim.

AR Cash application form

Customer Name	A. C. Networks	Unapplied	0.00
Customer Number	1143	On Account	0.00
Location	Provo (OPS)	Cash Claims	<10,000.00>
Receipt Amount	USD 100,000.00	Prepayments	0.00
		Exchange Gain/Loss	0.00

Apply	Saved	Apply To	Apply Date	Amount Applied	Balance Due	Application Reference	Application Reference Reason	Application Reference Num	Customer Reference
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	10037427	10-MAR-2014	60,433.09	0.00			66349	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	518802	10-MAR-2014	49,566.91	5,683.09	Trade Management Cl	Shipping	DED21714	
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Claim Inves	10-MAR-2014	<10,000.00>		Trade Management Cl	Promotional	DED21715	PROMO1001

Lockbox Process

AR Lockbox can be configured to accept deductions and create them as claims in Channel Revenue. Below are some of the options it provides:

- Configure the type of deductions to enable for creation – Invoice Deductions, Claim Investigation Deductions and Overpayments.
- Capture reasons and reference given by customers through bank remittance file
- Deductions available for review and correction in Quick Cash before importing Receipts

Claims Management

Deductions created from Receivables are created in Channel Revenue as claims and are assigned to claims analysts for further research and settlement. When a claim is created, it gives an option to allow for automatic clearing using two approaches. First is to write-off the balance using amount thresholds, which can be set at either a customer level or the operating unit level. Second is to use the rules based settlement to match the reference given on a claim to identify the promotion its related to and settle against the promotion, or match to the credit given in the deduction to clear the deduction with the credit memo.

Claims can be assigned using a territory assignment based on customer, claim type or reason. When a claim is assigned for research it provides all the details captured in the receipt at the time of creation.

Below are the other features available as part of the claims workbench in Channel Revenue:

- Facilitates research process by capturing all details provided by customers, reassigning to other teams for further analysis without having any impact on receivables or any other financial transaction.
- Allows a deduction to be split into multiple pieces and each to be resolved via different payment methods over a period of time without having to go into receivables to manage the cash application.
- Allows for a deduction to be associated with a promotion and clear the deduction with the promotional fund.
- Approvals can be enabled on the claims before a final settlement is created in AR.
- Allows for settlement as a Credit Memo, Write-off or Chargeback for invalid deductions.
- Provides segregation of duties by having the claims analyst to resolve the deduction completely without having to go into AR.
- Separate claims aging to look at outstanding deductions.

Deductions Summary in Channel Revenue

Claims

Saved Searches Receipt # Search Search Personalize

Create Mass Create Update Restore

Claim	Date	Currency	Amount	Customer	Claim Reason	Claim Type	Owner	Status	Receipt Number	Source Object Number
DED21715	10-MAR-2014	US dollar	10,000.00	A. C. Networks	Promotional	Brokers Deductions	Stubbs, Ms. Carol	Open	SK11223344	
DED21714	10-MAR-2014	US dollar	5,683.09	A. C. Networks	Shipping	Non Promotional	Colson, Mr. John	Open	SK11223344	518802

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Deduction Settlements

Deductions can be settled as a Credit Memo when they are valid, and in some cases use the Write-Off settlement method to clear the deduction. Invalid deductions can be settled as a Chargeback transaction so that it can be collected back from the customer. All the settlements are automated between Channel Revenue and Receivables and once a deduction has been approved from Channel Revenue the settlement transaction gets created in AR and closes the deduction.

Automation of the Process

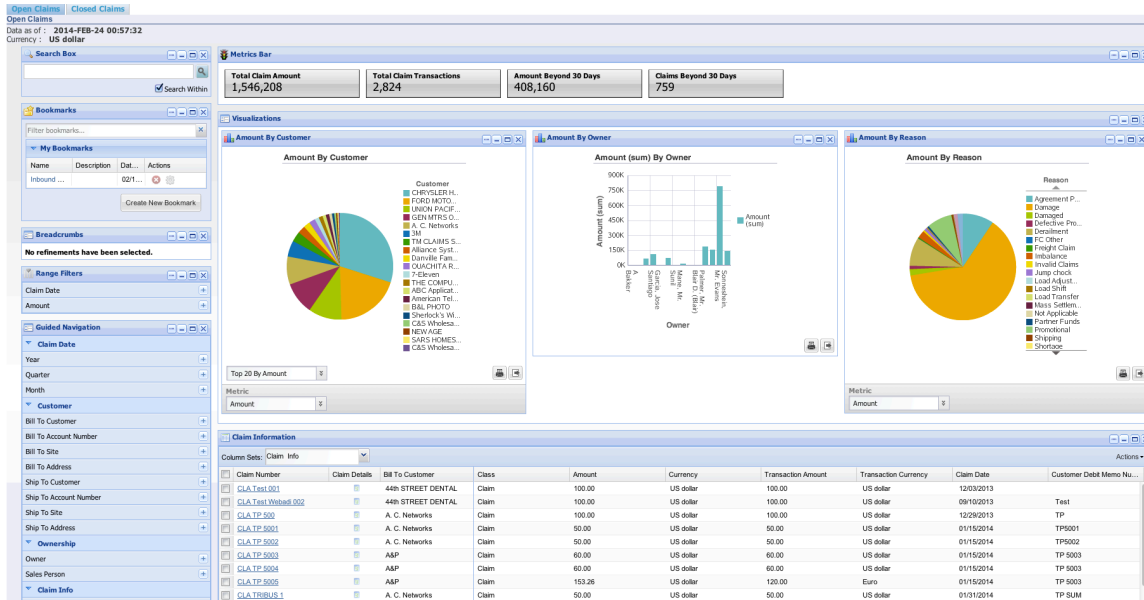
Several automations can be introduced into the deduction management process to help clear out valid deductions faster, giving the analyst more time to work on deductions that require research time. Below are some of the commonly used automations that can be enabled to streamline the processes:

- Assignment of deductions to collector.
- Derive and assign claim type, settlement methods and other relevant information on deduction to help with research process.
- Auto write-off of deductions based on reasons or types, and write-off thresholds defined based on types or reasons. It can be configured to hit different receivable activities for the write-off based on the type or reason of claim so that accounting for those settlements are handled properly.

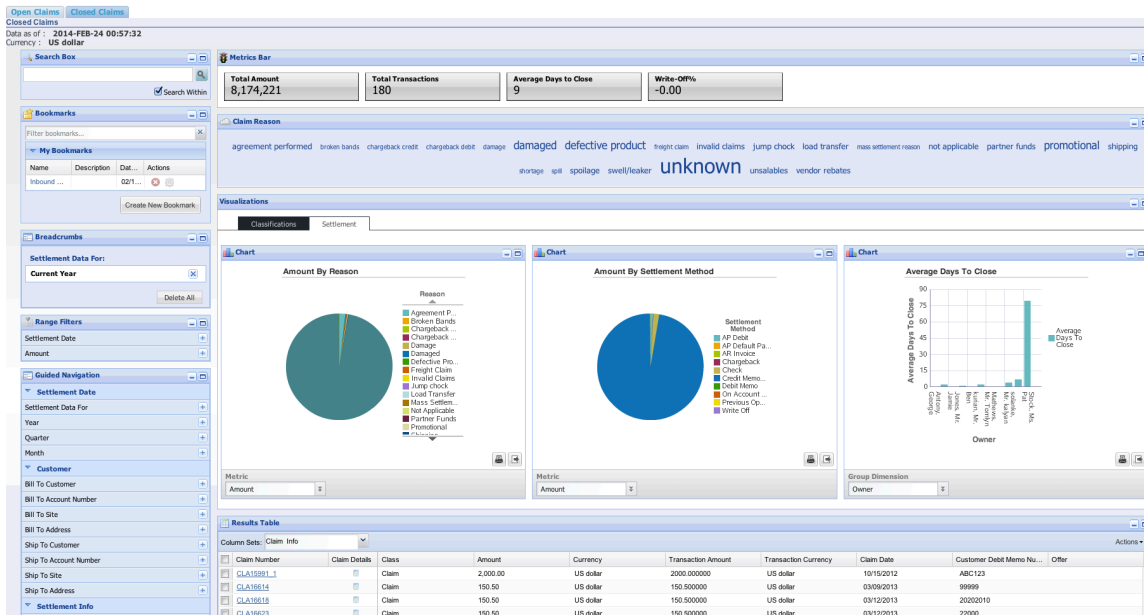
Get the Maximum Visibility

One of the most important functions of a Deduction Management Solution is providing visibility into the outstanding deductions and enabling an analyst to identify those deductions that require attention. Channel Revenue has dashboards available that show the outstanding deductions in a close to real-time view, and help drilldown and navigate to deductions that need to be researched and resolved. This helps clear deductions faster and identifies patterns to prevent unauthorized deductions. It also has a view of closed deductions, which can be used as a tool for post settlement analysis.

Open Claims Dashboard



Closed Claims Dashboard



Benefits

Below are some of the benefits of using an integrated Deduction Management Solution provided by Oracle E-Business Suite:

- Streamline the cash application process and reduce the number of transactions created to keep track of deductions.
- Reduce Days Deduction Outstanding (DDO).
- Identify invalid deductions and reduce the need to write-off by going back to the relevant parties in stipulated time.
- Automate settlements of deductions.
- Provides a clear audit trail of all deduction settlements, including subsequent payments to outstanding payments.