

**Oracle® Fusion Applications Enterprise Structures Concepts
Guide**

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Oracle® Fusion Applications Enterprise Structures Concepts Guide

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Contents

1 Enterprise Structures

Enterprise Structures: Overview	1-1
Enterprise Structures Business Process Model: Explained	1-3
Using Single or Multiple Classifications for an Organization: Points to Consider	1-5
Configuration Workbench: Explained	1-5
Global Enterprise Configuration: Points to Consider	1-5
Modeling Your Enterprise Management Structure in Oracle Fusion: Example	1-6

2 Enterprises

Enterprise: Explained	2-1
-----------------------------	-----

3 Jurisdictions and Legal Authorities

Jurisdictions and Legal Authorities: Explained	3-1
Jurisdictions: Explained	3-1
Legal Authorities: Explained	3-2
Legislative Data Groups: Explained	3-2

4 Legal Entities

Legal Entities: Explained	4-1
Legal Entity in Oracle Fusion: Points to Consider	4-2
What's a payroll statutory unit	4-6
What's a legal employer	4-6
What's a tax reporting unit	4-6
Planning Legal Reporting Units: Points to Consider	4-6
Designing an Enterprise Configuration: Example	4-7

5 Management Reporting Structures

Division: Explained	5-1
Business Units: Explained	5-2
Business Functions: Explained	5-3
Business Functions and Departments: How They Fit Together	5-5
Shared Service Centers: Explained	5-6
Project Units: Explained	5-6
Business Units and Projects: Explained	5-7
What's the difference between a business unit and a project unit	5-9

What's the difference between business units in PeopleSoft and Oracle Fusion Applications	5-9
What's the difference between business units in Oracle E-Business Suite and Oracle Fusion Applications	5-9
Modeling Your Business Units in Your Enterprise Structure in Oracle Fusion: Example	5-10

6 Financial Reporting Structures

Representing Your Enterprise Structure in Your Financial Reporting Structure: Overview	6-1
Chart of Accounts: Explained	6-1
Thick Versus Thin General Ledger: Critical Choices	6-2
Chart of Accounts: How Its Components Fit Together	6-5
Financial Enterprise Structure: How It Fits Together	6-7
Modeling Your Financial Reporting Structure in Oracle Fusion: Example	6-9

7 Cost Centers and Departments

Cost Centers and Departments: Explained	7-1
Department Classifications: Points to Consider	7-2
What's a project and task owning organization	7-4
What's a project expenditure organization	7-4

8 Facilities

Item Master Organization: Explained	8-1
Item Organization: Explained	8-2
Inventory Organization: Critical Choices	8-2
Cost Organization: Explained	8-4

9 Reference Data

Reference Data Sets and Sharing Methods: Explained	9-1
What reference data objects can be shared across business units	9-2
What reference data objects can be shared across asset books	9-4
What reference data objects can be shared across cost organizations	9-4
What reference data objects can be shared across project units	9-4
Product Specific Reference Data Sharing: Explained	9-5

10 Shared Service Centers

Shared Service Center: Points to Consider	10-1
Service Provider Model: Explained	10-2

Preface

This Preface introduces the guides, online help, and other information sources available to help you more effectively use Oracle Fusion Applications.

Oracle Fusion Applications Help

You can access Oracle Fusion Applications Help for the current page, section, activity, or task by clicking the help icon. The following figure depicts the help icon.



With a local installation of help, you can add custom help files to replace or supplement the provided content. Help content patches are regularly made available to ensure you have access to the latest information. Patching does not affect your custom content.

Oracle Fusion Applications Guides

Oracle Fusion Applications guides are a structured collection of the help topics, examples, and FAQs from the help system packaged for easy download and offline reference, and sequenced to facilitate learning. You can access the guides from the **Guides** menu in the global area at the top of Oracle Fusion Applications Help pages.

Note

The **Guides** menu also provides access to the business process models on which Oracle Fusion Applications is based.

Guides are designed for specific audiences:

- **User Guides** address the tasks in one or more business processes. They are intended for users who perform these tasks, and managers looking for an overview of the business processes. They are organized by the business process activities and tasks.
- **Implementation Guides** address the tasks required to set up an offering, or selected features of an offering. They are intended for implementors. They are organized to follow the task list sequence of the offerings, as displayed within the Setup and Maintenance work area provided by Oracle Fusion Functional Setup Manager.
- **Concept Guides** explain the key concepts and decisions for a specific area of functionality. They are intended for decision makers, such as chief financial officers, financial analysts, and implementation consultants. They are organized by the logical flow of features and functions.

- **Security Reference Manuals** describe the predefined data that is included in the security reference implementation for one offering. They are intended for implementors, security administrators, and auditors. They are organized by role.

To supplement these guides, which cover specific business processes and offerings, the following guides address common areas:

Other Information Sources

My Oracle Support

Oracle customers have access to electronic support through My Oracle Support. For information, visit <http://www.oracle.com/pls/topic/lookup?ctx=acc&id=info> or visit <http://www.oracle.com/pls/topic/lookup?ctx=acc&id=trs> if you are hearing impaired.

Use the My Oracle Support Knowledge Browser to find documents for a product area. You can search for release-specific information, such as patches, alerts, white papers, and troubleshooting tips. Other services include health checks, guided lifecycle advice, and direct contact with industry experts through the My Oracle Support Community.

Oracle Enterprise Repository for Oracle Fusion Applications

Oracle Enterprise Repository for Oracle Fusion Applications provides visibility into service-oriented architecture assets to help you manage the lifecycle of your software from planning through implementation, testing, production, and changes. In Oracle Fusion Applications, you can use the Oracle Enterprise Repository for Oracle Fusion Applications for:

- Technical information about integrating with other applications, including services, operations, composites, events, and integration tables. The classification scheme shows the scenarios in which you use the assets, and includes diagrams, schematics, and links to other technical documentation.
- Publishing other technical information such as reusable components, policies, architecture diagrams, and topology diagrams.

The Oracle Fusion Applications information is provided as a solution pack that you can upload to your own deployment of Oracle Enterprise Repository for Oracle Fusion Applications. You can document and govern integration interface assets provided by Oracle with other assets in your environment in a common repository.

Documentation Accessibility

For information about Oracle's commitment to accessibility, visit the Oracle Accessibility Program website at <http://www.oracle.com/us/corporate/accessibility/index.html>.

Comments and Suggestions

Your comments are important to us. We encourage you to send us feedback about Oracle Fusion Applications Help and guides. Please send your suggestions to oracle_fusion_applications_help_ww@oracle.com. You can use the **Send Feedback to Oracle** link in the footer of Oracle Fusion Applications Help.

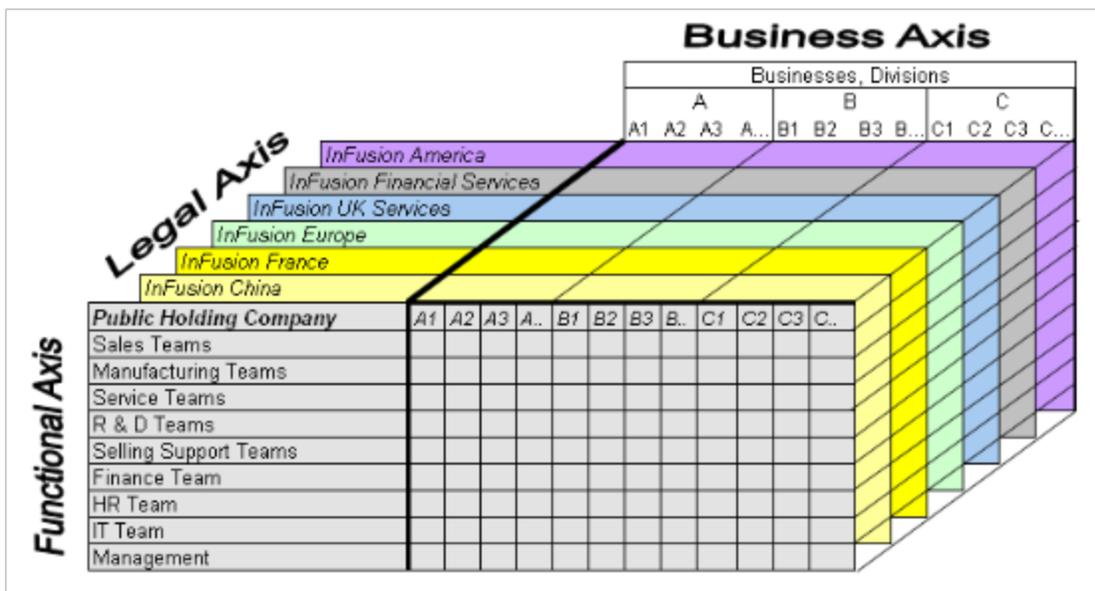
Enterprise Structures

Enterprise Structures: Overview

Oracle Fusion Applications have been designed to ensure your enterprise can be modeled to meet legal and management objectives. The decisions about your implementation of Oracle Fusion Applications are affected by your:

- Industry
- Business unit requirements for autonomy
- Business and accounting policies
- Business functions performed by business units and optionally, centralized in shared service centers
- Locations of facilities

Every enterprise has three fundamental structures, legal, managerial, and functional, that are used to describe its operations and provide a basis for reporting. In Oracle Fusion, these structures are implemented using the chart of accounts and organizations. Although many alternative hierarchies can be implemented and used for reporting, you are likely to have one primary structure that organizes your business into divisions, business units, and departments aligned by your strategic objectives.



Legal Structure

The figure above shows a typical group of legal entities, operating various business and functional organizations. Your ability to buy and sell, own, and employ comes from your charter in the legal system. A corporation is a distinct

legal entity from its owners and managers. The corporation is owned by its shareholders, who may be individuals or other corporations. There are many other kinds of legal entities, such as sole proprietorships, partnerships, and government agencies.

A legally recognized entity can own and trade assets and employ people in the jurisdiction in which it is registered. When granted these privileges, legal entities are also assigned responsibilities to:

- Account for themselves to the public through statutory and external reporting
- Comply with legislation and regulations
- Pay income and transaction taxes
- Process value added tax (VAT) collection on behalf of the taxing authority

Many large enterprises isolate risk and optimize taxes by incorporating subsidiaries. They create legal entities to facilitate legal compliance, segregate operations, optimize taxes, complete contractual relationships, and isolate risk. Enterprises use legal entities to establish their enterprise's identity under the laws of each country in which their enterprise operates.

In the figure above, a separate card represents a series of registered companies. Each company, including the public holding company, InFusion America, must be registered in the countries where they do business. Each company consists of various divisions created for purposes of management reporting. These are shown as vertical columns on each card. For example, a group might have a separate company for each business in the United States (US), but have their United Kingdom (UK) legal entity represent all businesses in that country. The divisions are linked across the cards so that a business can appear on some or all of the cards. For example, the air quality monitoring systems business might be operated by the US, UK, and France companies. The list of business divisions is on the Business Axis. Each company's card is also horizontally striped by functional groups, such as the sales team and the finance team. This functional list is called the Functional Axis. The overall image suggests that information might, at a minimum, be tracked by company, business, division, and function in a group environment. In Oracle Fusion Applications, the legal structure is implemented using legal entities.

Management Structure

Successfully managing multiple businesses requires that you segregate them by their strategic objectives, and measure their results. Although related to your legal structure, the business organizational hierarchies do not need to be reflected directly in the legal structure of the enterprise. The management structure can include divisions, subdivisions, lines of business, strategic business units, and cost centers. In the figure above, the management structure is shown on the Business Axis. In Oracle Fusion Applications, the management structure is implemented using divisions and business units.

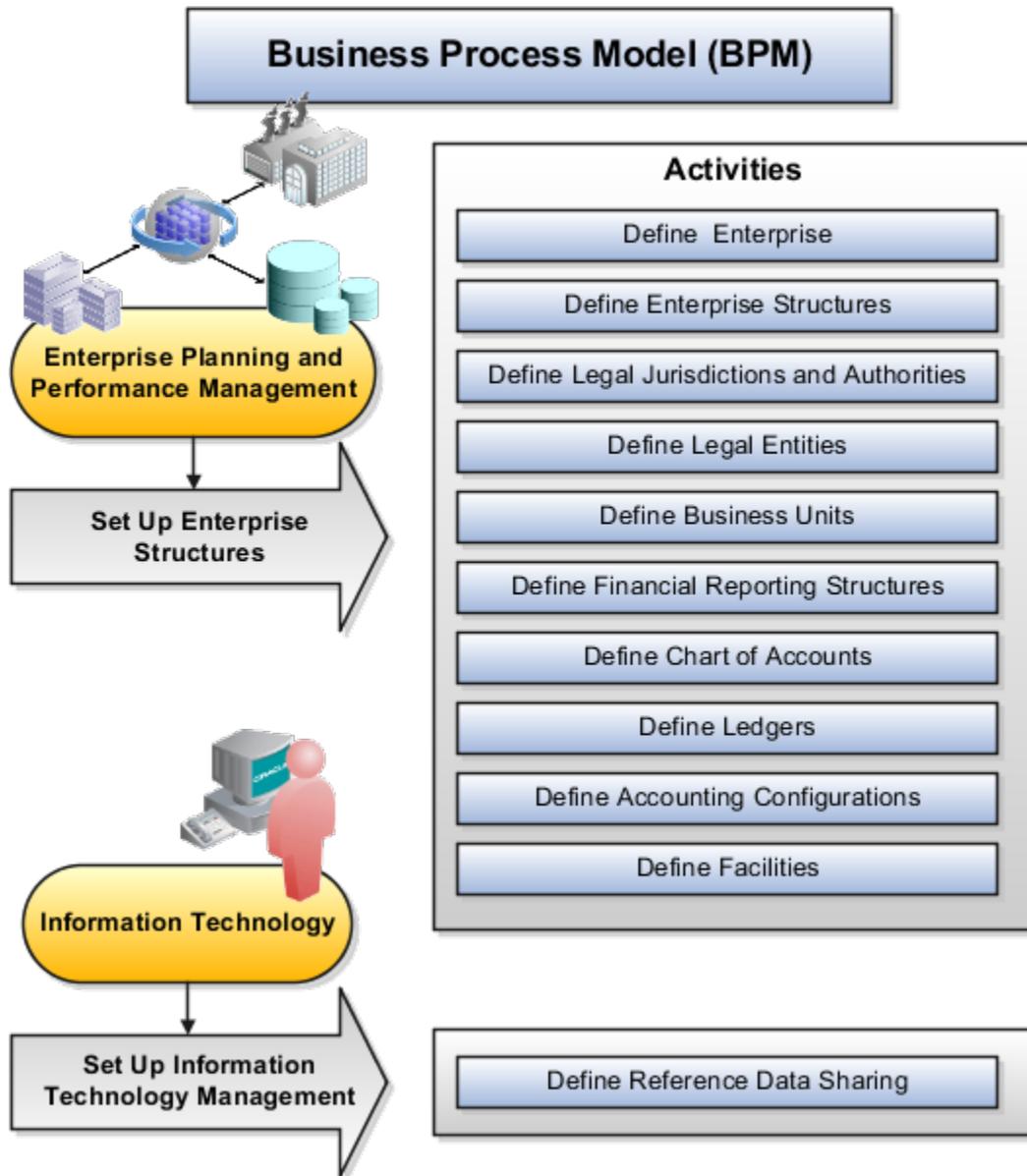
Functional Structure

Straddling the legal and business organizations is a functional organization structured around people and their competencies. For example, sales, manufacturing, and service teams are functional organizations. This functional structure is represented by the Functional Axis in the figure above. You reflect the efforts and expenses of your functional organizations directly on the income statement. Organizations must manage and report revenues, cost of sales, and functional expenses such as research and development (R&D) and selling, general, and administrative (SG&A) expenses. In Oracle Fusion Applications, the functional structure is implemented using departments and organizations, including sales, marketing, project, cost, and inventory organizations.

Enterprise Structures Business Process Model: Explained

In Oracle Fusion Applications, the Enterprise Performance and Planning Business Process Model (BPM) illustrates the major implementation tasks that you perform to create your enterprise structures. This process model includes the Set Up Enterprise Structures detailed business process, which consist of implementation activities that span many product families. Information Technology is a second BPM which contains the Set Up Information Technology Management detailed business process. Define Reference Data Sharing is one of the activities in this detailed business process and is important in the implementation of the enterprise structures. This activity creates the mechanism to share reference data sets across multiple ledgers, business units, and warehouses, reducing the administrative burden and decreasing the time needed to implement.

The following figure and chart describes the BPM structures and activities.



BPM Activities	Description
Define Enterprise	Define the enterprise to capture the name of the deploying enterprise and the location of the headquarters. There is normally a single enterprise organization in a production environment. Multiple enterprises are defined when the system is used to administer multiple customer companies, or when you choose to set up additional enterprises for testing or development.
Define Enterprise Structures	Define enterprise structures to represent an organization with one or more legal entities under common control. Define internal and external organizations to represent each area of business within the enterprise.
Define Legal Jurisdictions and Authorities	Define information for governing bodies that operate within a jurisdiction.
Define Legal Entities	Define legal entities and legal reporting units for business activities handled by the Oracle Fusion Applications.
Define Business Units	Define business units of an enterprise to allow for flexible implementation, to provide a consistent entity for controlling and reporting on transactions, and to be an anchor for the sharing of sets of reference data across applications.
Define Financial Reporting Structures	Define financial reporting structures, including organization structures, charts of accounts, organizational hierarchies, calendars, currencies and rates, ledgers, and document sequences which are used in organizing the financial data of a company.
Define Chart of Accounts	Define chart of accounts including hierarchies and values to enable tracking of financial transactions and reporting at legal entity, cost center, account, and other segment levels.
Define Ledgers	Define the primary accounting ledger and any secondary ledgers that provide an alternative accounting representation of the financial data.
Define Accounting Configurations	Define the accounting configuration that serves as a framework for how financial records are maintained for an organization.
Define Facilities	Define inventory, item, and cost organizations. Inventory organizations represent facilities that manufacture or store items. The item master organization holds a single definition of items that can be shared across many inventory organizations. Cost organizations group inventory organizations within a legal entity to establish the cost accounting policies.
Define Reference Data Sharing	Define how reference data in the applications is partitioned and shared.

Note

There are product specific implementation activities that are not listed here and depend on the applications you are implementing. For example, you can

implement Define Enterprise Structures for Human Capital Management, Project Management, and Sales Management.

Using Single or Multiple Classifications for an Organization: Points to Consider

Organization classifications define the purpose of the organization, whether it's a department, a division, or a legal entity. In some enterprises, organization classifications overlap, which means that the same organization can be assigned multiple classifications. For example, one organization within an enterprise might be both a project organization and a department. The classifications of organizations vary according to business objectives, legal structure, industry, company culture, size and type of growth. You can create organizations in Oracle Fusion with one or more classifications to reflect your enterprise structure.

Defining an Organization with One Classification

Define each organization in your enterprise as a separate organization with a single classification to reflect your enterprise structure and provide flexibility for growth and expansion. The advantage of setting up separate organizations is the ability to add further organizations to expand the enterprise easily. For example, if your enterprise acquires another company which has a different line of business in a country in which you employ people, then you can create a division to represent the new company, a legal entity (classified as a legal employer and payroll statutory unit) for the company's payroll tax and social insurance, and any additional departments for workers.

Defining an Organization with Multiple Classifications

Define an organization with multiple classifications if the organization has multiple purposes. For example, if you want to use an organization within the Oracle Fusion Customer Relationship Management applications as a department that employs sales people, you can classify it as a department and a sales organization. Or, if your enterprise operates and employs people in multiple countries, you can create a legal entity for each country using the Oracle Fusion Legal Entity Configurator and then use the Manage Departments task to classify them as a department as well.

Configuration Workbench: Explained

The Oracle Fusion Enterprise Structures Configurator (ESC) is an interview based tool to help you analyze how to represent your business in the Oracle Fusion Applications. The interview process poses questions about the name of your enterprise, legal structure, management reporting structure, and primary organizing principle for your business. Based on your answers, the applications suggest the best practices to use to implement business units in your enterprise. You can use or modify these answers to ensure that both your reporting and administrative goals are met in your Oracle Fusion deployment.

Global Enterprise Configuration: Points to Consider

Start your global enterprise structure configuration by discussing what your organization's reporting needs are and how to represent those needs in the

Oracle Fusion Applications. Consider deployment on a single instance, or at least, on as few instances as possible, to simplify reporting and consolidations for your global enterprises. The following are some questions and points to consider as you design your global enterprise structure in Oracle Fusion.

- Enterprise Configuration
- Business Unit Management
- Security Structure
- Compliance Requirements

Enterprise Configuration

What is the level of configuration needed to achieve the reporting and accounting requirements? What components of your enterprise do you need to report on separately? Which components can be represented by building a hierarchy of values to provide reporting at both detail and summary levels? Where are you on the spectrum of centralization versus decentralization?

Business Unit Management

What reporting do I need by business unit? How can you set up your departments or business unit accounts to achieve departmental hierarchies that report accurately on your lines of business? What reporting do you need to support the managers of your business units, and the executives who measure them? How often are business unit results aggregated? What level of reporting detail is required across business units?

Security Structure

What level of security and access is allowed? Are business unit managers and the people that report to them secured to transactions within their own business unit? Are the transactions for their business unit largely performed by a corporate department or shared service center?

Compliance Requirements

How do you comply with your corporate external reporting requirements and local statutory reporting requirements? Do you tend to prefer a corporate first or an autonomous local approach? Where are you on a spectrum of centralization, very centralized or decentralized?

Modeling Your Enterprise Management Structure in Oracle Fusion: Example

This example uses a fictitious global company to demonstrate the analysis that can occur during the enterprise structure configuration planning process.

Scenario

Your company, InFusion Corporation, is a multinational conglomerate that operates in the United States (US) and the United Kingdom (UK). InFusion has purchased an Oracle Fusion enterprise resource planning (ERP) solution including Oracle Fusion General Ledger and all of the Oracle Fusion subledgers. You are chairing a committee to discuss creation of a model for your global enterprise structure including both your US and UK operations.

InFusion Corporation

InFusion Corporation has 400 plus employees and revenue of \$120 million. Your product line includes all the components to build and maintain air quality monitoring (AQM) systems for homes and businesses. You have two distribution centers and three warehouses that share a common item master in the US and UK. Your financial services organization provides funding to your customers for the start up costs of these systems.

Analysis

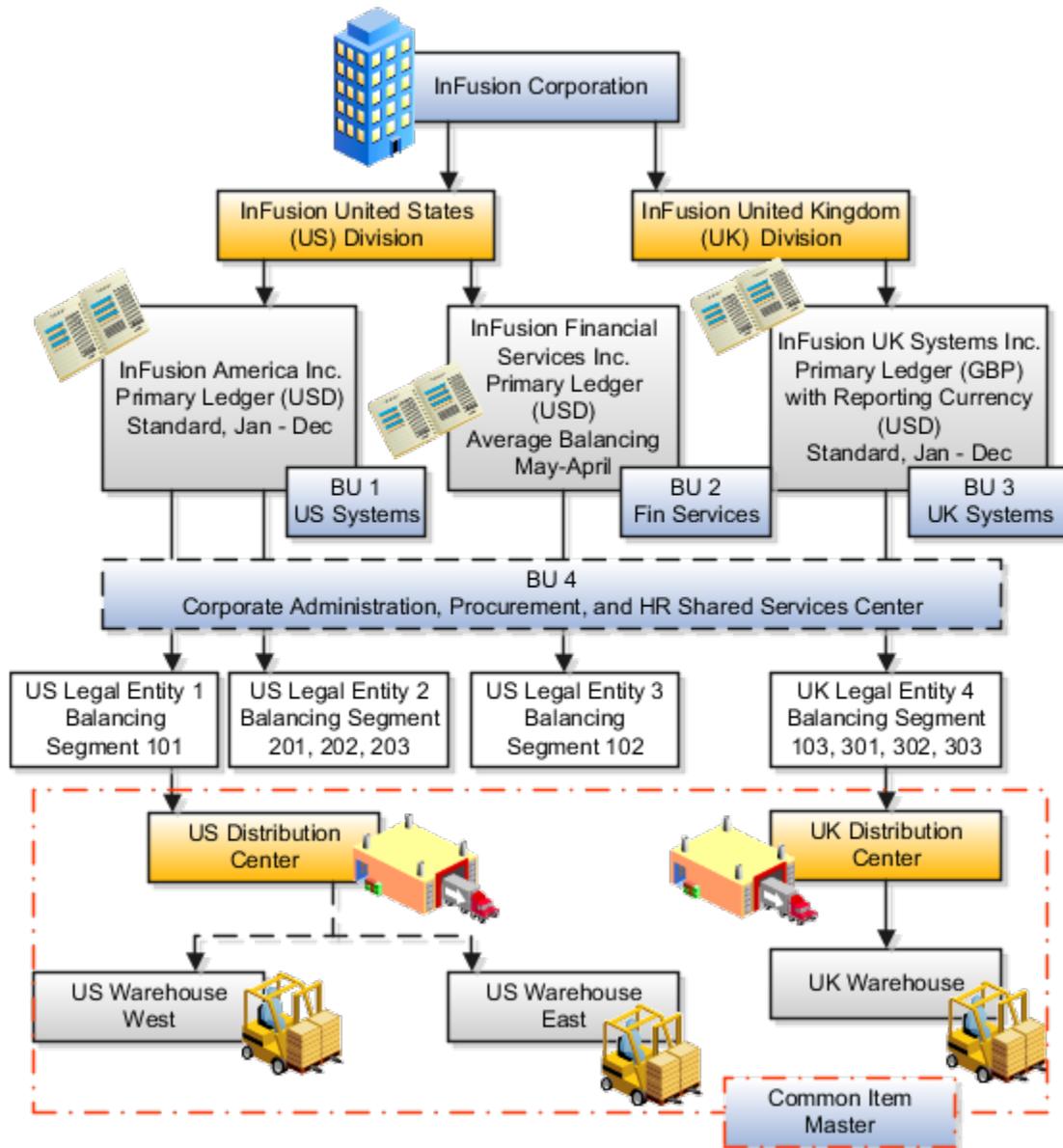
The following are elements you need to consider in creating your model for your global enterprise structure.

- Your company is required to report using US GAAP standards and UK Statements of Standard Accounting Practice and Financial Reporting Standards. How many ledgers do you need to achieve proper statutory reporting?
- Your managers need reports that show profit and loss (revenue and expenses) for their lines of business. Do you use business units and balancing segments to represent your divisions and businesses? Do you secure data by two segments in your chart of accounts which represents each department and legal entity or one segment that represents both to produce useful, but confidential management reports?
- Your corporate management requires reports showing total organizational performance with drill down capability to the supporting details. Do you need multiple balancing segment hierarchies to achieve proper rollup of balances for reporting requirements?
- Your company has all administrative, account payables, procurement, and human resources functions performed at their corporate headquarters. Do you need one or more business unit in which to perform all these functions? How will your shared service center be configured?

Global Enterprise Structure Model

The following figure and table summarize the model that your committee has designed and uses numerical values to provide a sample representation of your structure. The model includes the following recommendations:

- Creation of three separate ledgers representing your separate legal entities:
 - InFusion America Inc.
 - InFusion Financial Services Inc.
 - InFusion UK Services Inc.
- Consolidation of results for system components, installations, and maintenance product lines across the enterprise
- All UK general and administrative costs processed at the UK headquarters
- US Systems' general and administrative costs processed at US Corporate headquarters
- US Financial Services maintains its own payables and receivables departments



Real World Entity	Entity Name	Enterprise	Legal Entity	BSV	Ledger	BU	Cost Center	Dept	Item Master Org	Inventory Org
Enterprise	InFusion Group	●								
Company	US LE 1		●	●	●					
Company	US LE 2		●	●	●					
Company	US LE 3		●	●	●					
Company	UK LE 4		●	●	●					
Business Unit	US Systems BU 1					●				
Business Unit	FIN Services BU 2					●				
Business Unit	UK Systems BU 3					●				
Division	InFusion UK			●			●			
Division	InFusion US			●			●			
Headquarters	BU 4					●				
Shared Service Center	BU 4					●				
Department	AP Department						●	●		
List of Items	Common Item Master								●	
Distribution Center	US Distribution Center									●
Distribution Center	UK Distribution Center									●
Warehouse	US Warehouse West									●
Warehouse	US Warehouse East									●
Warehouse	UK Warehouse									●
BSV = Balancing Segment Value										
BU = Business Unit										
Dept = Department										
Org = Organization										
● = Mandatory Setup										
● = Optional Setup										

In this chart, the green globe stands for mandatory and gold globe stands for optional setup. The following statements expand on the data in the chart.

- The enterprise is mandatory because it serves as an umbrella for the entire implementation. All organizations are created within an enterprise.
- Legal entities are also mandatory. They can be optionally mapped to balancing segment values or represented by ledgers. Mapping balancing segment values to legal entities is mandatory if you plan to use the intercompany functionality.
- At least one ledger is mandatory in an implementation in which you record your accounting transactions.
- Business units are also mandatory because financial transactions are processed in business units.
- A shared service center is optional, but if used, must be a business unit.
- Divisions are optional and can be represented with a hierarchy of cost centers or by a second balancing segment value.
- Departments are mandatory because they track your employees.
- Optionally, add an item master organization and inventory organizations if you are tracking your inventory transactions in Oracle Fusion Applications.

Note

Some Oracle Fusion Human Capital Management (HCM) and Customer Relationship Management (CRM) implementations do not require recording of accounting transactions and therefore, do not require implementation of a ledger.

Note

The InFusion Corporation is a legal entity but is not discussed in this example.

Enterprises

Enterprise: Explained

An enterprise consists of legal entities under common control and management.

Enterprise Defined

When implementing Oracle Fusion Applications you operate within the context of an enterprise that has already been created in the application for you. This is either a predefined enterprise or an enterprise that has been created in the application by a system administrator.

An enterprise organization captures the name of the deploying enterprise and the location of the headquarters. There is normally a single enterprise organization in a production environment. Multiple enterprises are defined when the system is used to administer multiple customer companies, for example, multiple tenants, or when a customer chooses to set up additional enterprises for testing or development.

Oracle Fusion Applications offers capabilities for multiple tenants to share the same applications instance for some human resources processes. If you offer business process outsourcing services to a set of clients, each of those clients may be represented as an enterprise within an Oracle Fusion Application instance. To support this functionality, system owned reference data such as sequences, sets, and flexfields are also defined within an enterprise.

In Oracle Fusion Applications, an organization classified as an enterprise is defined before defining any other organizations in the HCM Common Organization Model. All other organizations are defined as belonging to an enterprise.

Jurisdictions and Legal Authorities

Jurisdictions and Legal Authorities: Explained

You are required to register your legal entities with legal authorities in the jurisdictions where you conduct business. Register your legal entities as required by local business requirements or other relevant laws. For example, register your legal entities for tax reporting to report sales taxes or value added taxes.

Legal Jurisdictions and Authorities

Define jurisdictions and related legal authorities to support multiple legal entity registrations, which are used by Oracle Fusion Tax and Oracle Fusion Payroll. When you first create a legal entity, the Oracle Fusion Legal Entity Configurator automatically creates one legal reporting unit for that legal entity with a registration.

Jurisdictions: Explained

Jurisdiction is a physical territory such as a group of countries, country, state, county, or parish where a particular piece of legislation applies. French Labor Law, Singapore Transactions Tax Law, and US Income Tax Laws are examples of particular legislation that apply to legal entities operating in different countries' jurisdictions. Judicial authority may be exercised within a jurisdiction.

Types of jurisdictions are:

- Identifying Jurisdiction
- Income Tax Jurisdiction
- Transaction Tax Jurisdiction

Identifying Jurisdiction

For each legal entity, select an identifying jurisdiction. An identifying jurisdiction is your first jurisdiction you must register with to be allowed to do business in a country. If there is more than one jurisdiction that a legal entity needs to register with to commence business, select one as the identifying jurisdiction. Typically

the identifying jurisdiction is the one you use to uniquely identify your legal entity.

Income tax jurisdictions and transaction tax jurisdictions do not represent the same jurisdiction. Although in some countries, the two jurisdictions are defined at the same geopolitical level, such as a country, and share the same legal authority, they are two distinct jurisdictions.

Income Tax Jurisdiction

Create income tax jurisdictions to properly report and remit income taxes to the legal authority. Income tax jurisdictions by law impose taxes on your financial income generated by all your entities within their jurisdiction. Income tax is a key source of funding that the government uses to fund its activities and serve the public.

Transaction Tax Jurisdiction

Create transaction tax jurisdictions through Oracle Fusion Tax in a separate business flow, because of the specific needs and complexities of various taxes. Tax jurisdictions and their respective rates are provided by suppliers and require periodic maintenance. Use transaction tax jurisdiction for legal reporting of sales and value added taxes.

Legal Authorities: Explained

A legal authority is a government or legal body that is charged with powers to make laws, levy and collect fees and taxes, and remit financial appropriations for a given jurisdiction.

Legal Authorities

For example, the Internal Revenue Service is the authority for enforcing income tax laws in United States. In some countries, such as India and Brazil, you are required to print legal authority information on your tax reports. Legal authorities are defined in the Oracle Fusion Legal Entity Configurator. Tax authorities are a subset of legal authorities and are defined using the same setup flow.

Legal authorities are not mandatory in Oracle Fusion Human Capital Management (HCM), but are recommended and are generally referenced on statutory reports.

Legislative Data Groups: Explained

Legislative data groups are a means of partitioning payroll and related data. At least one legislative data group is required for each country where the enterprise operates. Each legislative data group is associated with one or more payroll statutory units.

Legislative Data Groups

Fusion Payroll is organized by legislative data groups. Each legislative data group marks a legislation in which payroll is processed, and is associated with

a legislative code, currency and its own cost key flexfield structure. A legislative data group is a boundary that can share the same set up and still comply with the local laws. It can span many jurisdictions as long as they are within one country, and contain many legal entities that act as payroll statutory units. Each payroll statutory unit can belong to only one legislative data group.

Legal Entities

Legal Entities: Explained

A legal entity is a recognized party with rights and responsibilities given by legislation.

Legal entities have the right to own property, the right to trade, the responsibility to repay debt, and the responsibility to account for themselves to regulators, taxation authorities, and owners according to rules specified in the relevant legislation. Their rights and responsibilities may be enforced through the judicial system. Define a legal entity for each registered company or other entity recognized in law for which you want to record assets, liabilities, and income, pay transaction taxes, or perform intercompany trading.

A legal entity has responsibility for elements of your enterprise for the following reasons:

- Facilitating local compliance
- Taking advantage of lower corporation taxation in some jurisdictions
- Preparing for acquisitions or disposals of parts of the enterprise
- Isolating one area of the business from risks in another area. For example, your enterprise develops property and also leases properties. You could operate the property development business as a separate legal entity to limit risk to your leasing business.

The Role of Your Legal Entities

In configuring your enterprise structure in Oracle Fusion Applications, you need to understand that the contracting party on any transaction is always the legal entity. Individual legal entities own the assets of the enterprise, record sales and pay taxes on those sales, make purchases and incur expenses, and perform other transactions.

Legal entities must comply with the regulations of jurisdictions, in which they register. Europe now allows for companies to register in one member country and do business in all member countries, and the US allows for companies to register in one state and do business in all states. To support local reporting requirements, legal reporting units are created and registered.

You are required to publish specific and periodic disclosures of your legal entities' operations based on different jurisdictions' requirements. Certain annual or more frequent accounting reports are referred to as statutory or external reporting. These reports must be filed with specified national and regulatory authorities. For example, in the United States (US), your publicly owned entities (corporations) are required to file quarterly and annual reports, as well as other periodic reports, with the Securities and Exchange Commission (SEC), who enforces statutory reporting requirements for public corporations.

Individual entities privately held or held by public companies do not have to file separately. In other countries, your individual entities do have to file in their own name, as well as at the public group level. Disclosure requirements are diverse. For example, your local entities may have to file locally to comply with local regulations in a local currency, as well as being included in your enterprise's reporting requirements in different currency.

A legal entity can represent all or part of your enterprise's management framework. For example, if you operate in a large country such as the United Kingdom or Germany, you might incorporate each division in the country as a separate legal entity. In a smaller country, for example Austria, you might use a single legal entity to host all of your business operations across divisions.

Legal Entity in Oracle Fusion: Points to Consider

Oracle Fusion Applications support the modeling of your legal entities. If you make purchases from or sell to other legal entities, define these other legal entities in your customer and supplier registers, which are part of the Oracle Fusion Trading Community Architecture. When your legal entities are trading with each other, you represent both of them as legal entities and also as customers and suppliers in your customer and supplier registers. Use legal entity relationships to determine which transactions are intercompany and require intercompany accounting. Your legal entities can be identified as legal employers and therefore, are available for use in Human Capital Management (HCM) applications.

There are several decisions that need to be considered in creating your legal entities.

- The importance of legal entity in transactions
- Legal entity and its relationship to business units
- Legal entity and its relationship to divisions
- Legal entity and its relationship to ledgers
- Legal entity and its relationship to balancing segments
- Legal entity and its relationship to consolidation rules
- Legal entity and its relationship to intercompany transactions
- Legal entity and its relationship to worker assignments and legal employer
- Legal entity and payroll reporting

- Legal reporting units

The Importance of Legal Entity in Transactions

All of the assets of the enterprise are owned by individual legal entities. Oracle Fusion Financials allow your users to enter legal entities on transactions that represent a movement in value or obligation.

For example, the creation of a sales order creates an obligation for the legal entity that books the order to deliver the goods on the acknowledged date, and an obligation of the purchaser to receive and pay for those goods. Under contract law in most countries, damages can be sought for both actual losses, putting the injured party in the same state as if they had not entered into the contract, and what is called loss of bargain, or the profit that would have made on a transaction.

In another example, if you revalued your inventory in a warehouse to account for raw material price increases, the revaluation and revaluation reserves must be reflected in your legal entity's accounts. In Oracle Fusion Applications, your inventory within an inventory organization is managed by a single business unit and belongs to one legal entity.

Legal Entity and Its Relationship to Business Units

A business unit can process transactions on behalf of many legal entities. Frequently, a business unit is part of a single legal entity. In most cases the legal entity is explicit on your transactions. For example, a payables invoice has an explicit legal entity field. Your accounts payables department can process supplier invoices on behalf of one or many business units.

In some cases, your legal entity is inferred from your business unit that is processing the transaction. For example, your business unit A agrees on terms for the transfer of inventory to your business unit B. This transaction is binding on your default legal entities assigned to each business unit. Oracle Fusion Procurement, Oracle Fusion Projects, and Oracle Fusion Supply Chain applications rely on deriving the legal entity information from the business unit.

Legal Entity and Its Relationship to Divisions

The division is an area of management responsibility that can correspond to a collection of legal entities. If desired, you can aggregate the results for your divisions by legal entity or by combining parts of other legal entities. Define date-effective hierarchies for your cost center or legal entity segment in your chart of accounts to facilitate the aggregation and reporting by division. Divisions and legal entities are independent concepts.

Legal Entity and Its Relationship to Ledgers

One of your major responsibilities is to file financial statements for your legal entities. Map legal entities to specific ledgers using the Oracle Fusion General Ledger Accounting Configuration Manager. Within a ledger, you can optionally map a legal entity to one or more balancing segment values.

Legal Entity and Its Relationship to Balancing Segments

Oracle Fusion General Ledger supports up to three balancing segments. Best practices recommend that one of these segments represents your legal entity to ease your requirement to account for your operations to regulatory agencies, tax authorities, and investors. Accounting for your operations means you must produce a balanced trial balance sheet by legal entity. If you account for many legal entities in a single ledger, you must:

1. Identify the legal entities within the ledger
2. Balance transactions that cross legal entity boundaries through intercompany transactions
3. Decide which balancing segments correspond to each legal entity and assign them in Oracle Fusion General Ledger Accounting Configuration Manager. Once you assign one balancing segment value in a ledger, then all your balancing segment values must be assigned. This recommended best practice facilitates reporting on assets, liabilities, and income by legal entity.

Represent your legal entities by at least one balancing segment value. You may represent it by two or three balancing segment values if more granular reporting is required. For example, if your legal entity operates in multiple jurisdictions in Europe, you might define balancing segment values and map them to legal reporting units. You can represent a legal entity by more than one balancing segment value, do not use a single balancing segment value to represent more than one legal entity.

In Oracle Fusion General Ledger, there are three balancing segments. You can use separate balancing segments to represent your divisions or strategic business units to enable management reporting at the balance sheet level for each division or business unit. For example, use this solution to empower your business unit and divisional managers to track and assume responsibility for their asset utilization or return on investment. Using multiple balancing segments is also useful when you know at the time of implementation that you are disposing of a part of a legal entity and need to isolate the assets and liabilities for that entity.

Note

Implementing multiple balancing segments requires every journal entry that is not balanced by division or business unit, to generate balancing lines. Also, you cannot change to multiple balancing segments easily after you have begun to use the ledger because your historical data is not balanced by the new multiple balancing segments. Restating historical data must be done at that point.

To use this feature for disposal of a part of a legal entity, implement multiple balancing segments at the beginning of the legal entity's corporate life or on conversion to Oracle Fusion.

If you decided to account for each legal entity in a separate ledger, there is no requirement to identify the legal entity with a balancing segment value within the ledger.

Note

While transactions that cross balancing segments don't necessarily cross legal entity boundaries, all transactions that cross legal entity boundaries must cross balancing segments. If you make an acquisition or are preparing to dispose of a portion of your enterprise, you may want to account for that part of the enterprise in its own balancing segment even if it is not a separate legal entity. If you do not map legal entities sharing the same ledger to balancing segments, you will not be able to distinguish them using the intercompany functionality or track their individual equity.

Legal Entity and Its Relationship to Consolidation Rules

In Oracle Fusion Applications you can map legal entities to balancing segments and then define consolidation rules using your balancing segments. You are creating a relationship between the definition of your legal entities and their role in your consolidation.

Legal Entity and its Relationship to Intercompany Transactions

Use Oracle Fusion Intercompany functionality for automatic creation of intercompany entries across your balancing segments. Intercompany processing updates legal ownership within the enterprise's groups of legal entities. Invoices or journals are created as needed. To limit the number of trading pairs for your enterprise, set up intercompany organizations and assign them to your authorized legal entities. Define processing options and intercompany accounts to use when creating intercompany transactions and to assist in consolidation elimination entries. These accounts are derived and automatically entered on your intercompany transactions based on legal entities assigned to your intercompany organizations.

Intracompany trading, in which legal ownership isn't changed but other organizational responsibilities are, is also supported. For example, you can track assets and liabilities that move between your departments within your legal entities by creating departmental level intercompany organizations.

Note

In the Oracle Fusion Supply Chain applications, model intercompany relationships using business units, from which legal entities are inferred.

Legal Entity and Its Relationship to Worker Assignments and Legal Employer

Legal entities that employ people are called legal employers in the Oracle Fusion Legal Entity Configurator. You must enter legal employers on worker assignments in Oracle Fusion HCM.

Legal Entity and Payroll Reporting

Your legal entities are required to pay payroll tax and social insurance such as social security on your payroll. In Oracle Fusion Applications, you can register payroll statutory units to pay and report on payroll tax and social insurance on behalf of many of your legal entities. As the legal employer, you might be required to pay payroll tax, not only at the national level, but also at the local level. You meet this obligation by establishing your legal entity as a place of work within the jurisdiction of a local authority. Set up legal reporting units to represent the part of your enterprise with a specific legal reporting obligation.

You can also mark these legal reporting units as tax reporting units if the legal entity must pay taxes as a result of establishing a place of business within the jurisdiction.

What's a payroll statutory unit?

Payroll statutory units are legal entities that are responsible for paying workers, including the payment of payroll tax and social insurance. A payroll statutory unit can pay and report on payroll tax and social insurance on behalf of one or many legal entities, depending on the structure of your enterprise. For example, if you are a multinational, multicompany enterprise, then you register a payroll statutory unit in each country where you employ and pay people. You can optionally register a consolidated payroll statutory unit to pay and report on workers across multiple legal employers within the same country. You associate a legislative data group with a payroll statutory unit to provide the correct payroll information for workers.

What's a legal employer?

A legal employer is a legal entity that employs workers. You define a legal entity as a legal employer in the Oracle Fusion Legal Entity Configurator.

The legal employer is captured at the work relationship level, and all employment terms and assignments within that relationship are automatically with that legal employer. Legal employer information for worker assignments is also used for reporting purposes.

What's a tax reporting unit?

Use a tax reporting unit to group workers for the purpose of tax and social insurance reporting. A tax reporting unit is the Oracle Fusion Human Capital Management (HCM) version of the legal reporting unit in Oracle Fusion Applications. To create a tax reporting unit, you use the Oracle Fusion Legal Entity Configurator to define a legal entity as a payroll statutory unit. When you identify a legal entity as a payroll statutory unit, the application transfers the legal reporting units that are associated with that legal entity to Oracle Fusion HCM as a tax reporting unit (or should this be tax reporting units?). You can then access the tax reporting unit using the Manage TRU - HCM Information task.

If you identify a legal entity as a legal employer only, and not as a payroll statutory unit, you must enter a parent payroll statutory unit. The resulting legal reporting units are transferred to Oracle Fusion HCM as tax reporting units, but as children of the parent payroll statutory unit that you entered, and not the legal entity that you identified as a legal employer.

Planning Legal Reporting Units: Points to Consider

Each of your legal entities has at least one legal reporting unit. Legal reporting units can also be referred to as establishments. You can define either domestic or foreign establishments. Define legal reporting units by physical location, such as a sales office, or by logical unit, such as groups of employees subject to different reporting requirements. For example, define logical legal reporting units for both salaried and hourly paid employees.

Another example of logical reporting units is in the Human Capital Management (HCM) system where you use your legal reporting units to model your tax reporting units. A tax reporting unit is used to group workers for the purpose of tax reporting.

Planning Legal Reporting Units

Plan and define your legal reporting units at both the local and national levels if you operate within the administrative boundaries of a jurisdiction that is more granular than country. For example, your legal entity establishes operation in a country that requires reporting of employment and sales taxes locally as well as nationally. Therefore, you need more than one legally registered location to meet this legal entity's reporting requirements in each local area. Additionally, legal entities in Europe operate across national boundaries, and require you to set up legal reporting units for the purposes of local registration in each country. There can be multiple registrations associated with a legal reporting unit. However, there can be only one identifying registration, defined by the legal authority used for the legal entity or legal reporting unit, associated with the legal reporting unit.

Designing an Enterprise Configuration: Example

This example illustrates how to set up an enterprise based on a global company operating mainly in the US and the UK with a single primary industry.

Scenario

InFusion Corporation is a multinational enterprise in the high technology industry with product lines that include all the components that are required to build and maintain air quality monitoring (AQM) systems for homes and businesses. Its primary locations are in the US and the UK, but it has smaller outlets in France, Saudi Arabia, and the United Arab Emirates (UAE).

Enterprise Details

In the US, InFusion employs 400 people and has a company revenue of \$120 million. Outside the US, InFusion employs 200 people and has revenue of \$60 million.

Analysis

InFusion requires three divisions. The US division will cover the US locations. The Europe division will cover the UK and France. Saudi Arabia and the UAE will be covered by the Middle East division.

InFusion requires legal entities with legal employers, payroll statutory units, tax reporting units, and legislative data groups for the US, UK, France, Saudi Arabia, and UAE, in order to employ and pay its workers in those countries.

InFusion requires a number of departments across the enterprise for each area of business, such as sales and marketing, and a number of cost centers to track and report on the costs of those departments.

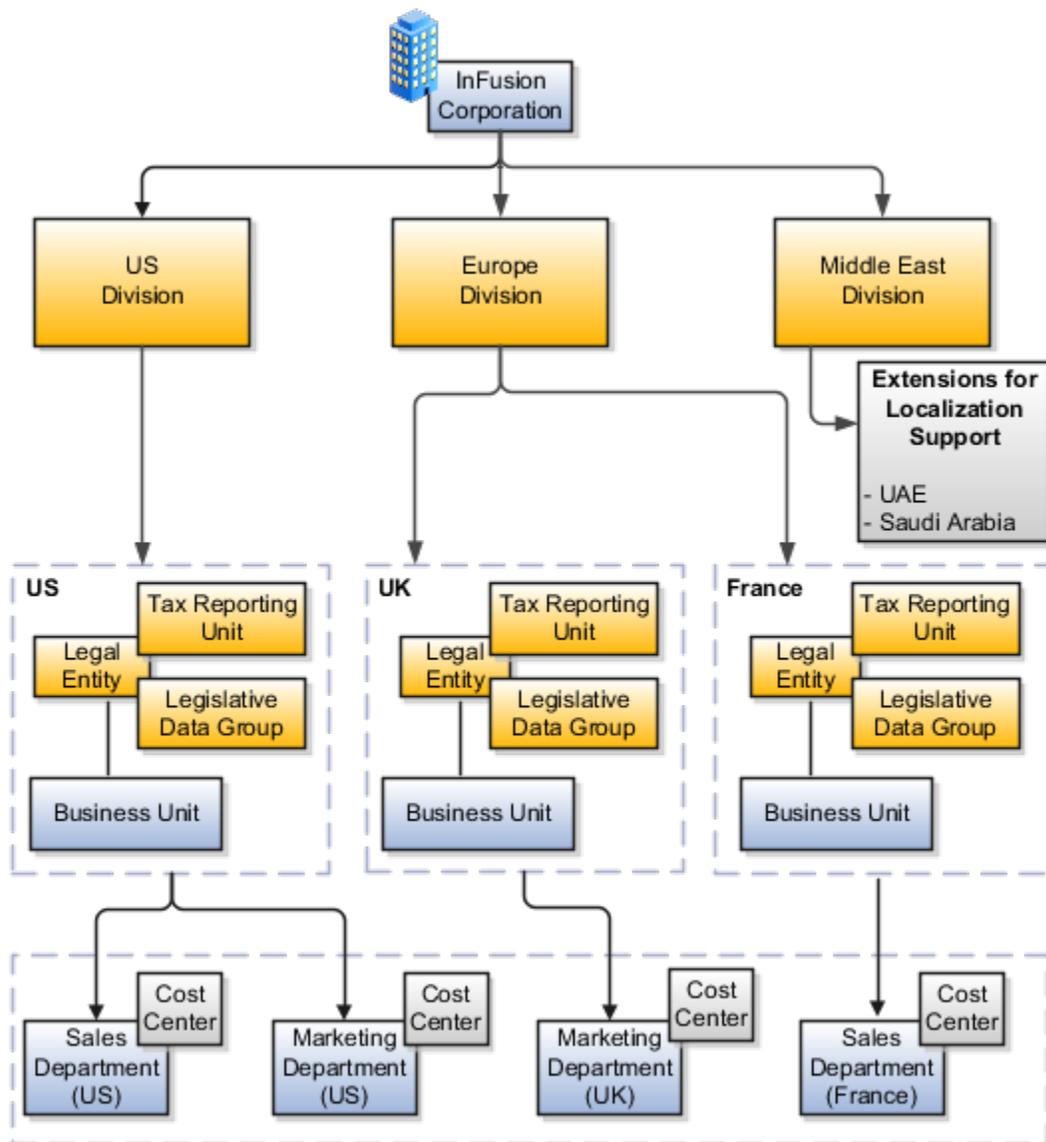
InFusion requires business units for human capital management (HCM) purposes. InFusion has general managers responsible for business units within

each country. Those business units may share reference data. Some reference data can be defined within a reference data set that multiple business units may subscribe to. Business units are also required for financial purposes. Financial transactions are always processed within a business unit.

Resulting Enterprise Configuration

Based on this analysis, InFusion requires an enterprise with multiple divisions, ledgers, legal employers, payroll statutory units, tax reporting units, legislative data groups, departments, cost centers, and business units.

This figure illustrates the enterprise configuration that results from the analysis of InFusion Corporation.



Management Reporting Structures

Division: Explained

Managing multiple businesses requires that you segregate them by their strategic objectives and measure their results. Responsibility to reach objectives can be delegated along the management structure. Although related to your legal structure, the business organizational hierarchies do not need to reflect directly the legal structure of the enterprise. The management entities and structure can include divisions and subdivisions, lines of business, and other strategic business units, and include their own revenue and cost centers. These organizations can be included in many alternative hierarchies and used for reporting, as long as they have representation in the chart of accounts.

Divisions

A division refers to a business oriented subdivision within an enterprise, in which each division organizes itself differently to deliver products and services or address different markets. A division can operate in one or more countries, and can be comprised of many companies or parts of different companies that are represented by business units.

A division is a profit center or grouping of profit and cost centers, where the division manager is responsible for attaining business goals including profit goals. A division can be responsible for a share of the company's existing product lines or for a separate business. Managers of divisions may also have return on investment goals requiring tracking of the assets and liabilities of the division. The division manager reports to a top corporate executive.

By definition a division can be represented in the chart of accounts. Companies may choose to represent product lines, brands, or geographies as their divisions: their choice represents the primary organizing principle of the enterprise. This may coincide with the management segment used in segment reporting.

Oracle Fusion Applications supports a qualified management segment and recommends that you use this segment to represent your hierarchy of business units and divisions. If managers of divisions have return on investment goals, make the management segment a balancing segment. Oracle Fusion applications allows up to three balancing segments. The values of the management segment can be comprised of business units that roll up in a hierarchy to report by division.

Historically, divisions were implemented as a node in a hierarchy of segment values. For example, Oracle E-Business Suite has only one balancing segment, and often the division and legal entity are combined into a single segment where each value stands for both division and legal entity.

Use of Divisions in Oracle Fusion Human Capital Management (HCM)

Divisions are used in HCM to define the management organization hierarchy, using the generic organization hierarchy. This hierarchy can be used to create organization based security profiles.

Business Units: Explained

A business unit is a unit of an enterprise that performs one or many business functions that can be rolled up in a management hierarchy. A business unit can process transactions on behalf of many legal entities. Normally, it will have a manager, strategic objectives, a level of autonomy, and responsibility for its profit and loss. Roll business units up into divisions if you structure your chart of accounts with this type of hierarchy. In Oracle Fusion Applications, you assign your business units to one primary ledger. For example, if a business unit is processing payables invoices they will need to post to a particular ledger. This assignment is mandatory for your business units with business functions that produce financial transactions.

In Oracle Fusion Applications, use business unit as a securing mechanism for transactions. For example, if you run your export business separately from your domestic sales business, secure the export business data to prevent access by the domestic sales employees. To accomplish this security, set up the export business and domestic sales business as two separate business units.

The Oracle Fusion Applications business unit model:

- Allows for flexible implementation
- Provides a consistent entity for controlling and reporting on transactions
- Anchors the sharing of sets of reference data across applications

Business units process transactions using reference data sets that reflect your business rules and policies and can differ from country to country. With Oracle Fusion Application functionality, you can choose to share reference data, such as payment terms and transaction types, across business units, or you can choose to have each business unit manage its own set depending on the level at which you wish to enforce common policies.

In countries where gapless and chronological sequencing of documents is required for subledger transactions, define your business units in alignment with your ledger definition, because the uniqueness of sequencing is only ensured within a ledger. In these cases, define a single ledger and assign one legal entity and business unit.

In summary, use business units in the following ways:

- Management reporting

- Processing of transactions
- Security of transactional data
- Reference data definition and sharing

Brief Overview of Business Unit Security

Business units are used by a number of Oracle Fusion Applications to implement data security. You assign data roles to your users to give them access to data in business units and permit them to perform specific functions on this data. When a business function is enabled for a business unit, the application can trigger the creation of data roles for this business unit base on the business function's related job roles.

For example, if a payables invoicing business function is enabled, then it is clear that there are employees in this business unit that perform the function of payables invoicing, and need access to the payables invoicing functionality. Therefore, based on the correspondence between the business function and the job roles, appropriate data roles are generated automatically. Use Human Capital Management (HCM) security profiles to administer security for employees in business units.

Business Functions: Explained

A business unit can perform many business functions in Oracle Fusion Applications. Prior to Oracle Fusion Applications, operating units in Oracle E-Business Suite were assumed to perform all business functions, while in PeopleSoft, each business unit had one specific business function. Oracle Fusion Applications blends these two models and allows defining business units with one or many business functions.

Business Functions

A business function represents a business process, or an activity that can be performed by people working within a business unit and describes how a business unit is used. The following business functions exist in Oracle Fusion applications:

- Billing and revenue management
- Collections management
- Customer contract management
- Customer payments
- Expense management
- Incentive compensation
- Marketing
- Materials management
- Inventory management

- Order fulfillment orchestration
- Payables invoicing
- Payables payments
- Procurement
- Procurement contract management
- Project accounting
- Receiving
- Requisitioning
- Sales

Although there is no relationship implemented in Oracle Fusion Applications, a business function logically indicates a presence of a department in the business unit with people performing tasks associated with these business functions. A business unit can have many departments performing various business functions. Optionally, you can define a hierarchy of divisions, business units, and departments as a tree over HCM organization units to represent your enterprise structure.

Note

This hierarchy definition is not required in the setup of your applications, but is a recommended best practice.

Your enterprise procedures can require a manager of a business unit to have responsibility for their profit and loss statement. However, there will be cases where a business unit is performing only general and administrative functions, in which case your manager's financial goals are limited to cost containment or recovering of service costs. For example, if a shared service center at the corporate office provides services for more commercially-oriented business units, it does not show a profit and therefore, only tracks its costs.

In other cases, where your managers have a responsibility for the assets of the business unit, a balance sheet can be produced. The recommended best practice to produce a balance sheet, is to setup the business unit as a balancing segment in the chart of accounts. The business unit balancing segment can roll up to divisions or other entities to represent your enterprise structure.

When a business function produces financial transactions, a business unit must be assigned to a primary ledger, and a default legal entity. Each business unit can post transactions to a single primary ledger, but it can process transactions for many legal entities.

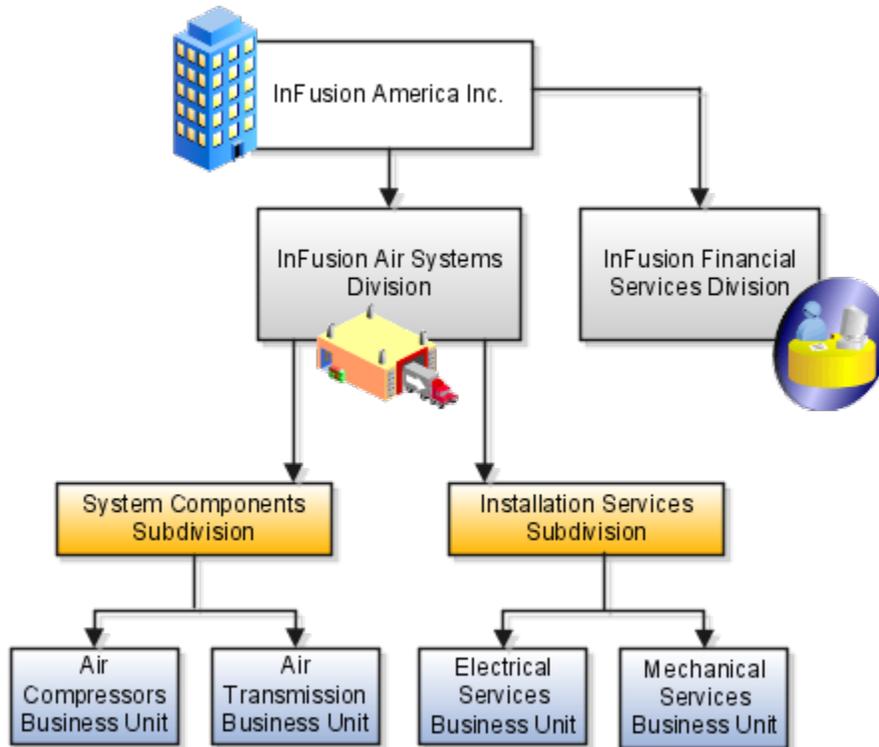
Business Unit Hierarchy: Example

For example, your InFusion America Company provides:

- Air quality monitoring systems through your division InFusion Air Systems
- Customer financing through your division InFusion Financial Services

The InFusion Air Systems division further segments your business into the System Components and Installation Services subdivisions. Your subdivisions are divided by business units:

- System Components by products: Air Compressors and Air Transmission
- Installation Services by services: Electrical and Mechanical



Oracle Fusion applications facilitates independent balance sheet rollups for legal and management reporting by offering up to three balancing segments. Hierarchies created using the management segment can provide the divisional results. For example, it is possible to define management segment values to correspond to business units, and arrange them in a hierarchy where the higher nodes correspond to divisions and subdivisions, as in the Infusion US Division example above.

Business Functions and Departments: How They Fit Together

A business unit running a business function indicates that the business unit has a department performing that function.

For example, the business unit running the accounts payable business function has at least one accounts payable department.

Another example is a business unit running a sales business function. This business unit has both sales and marketing departments.

Sales and marketing department hierarchies are maintained in the Customer Relationship Management (CRM) system using the resource manager

functionality. The department hierarchy utilized by Human Capital Management (HCM) can overlap, align with, or differ from the CRM sales organization hierarchy in both the number of levels and the organizational lines.

Shared Service Centers: Explained

Oracle Fusion Applications allows defining relationships between business units to outline which business unit provides services to the other business units.

Service Provider Model

In Oracle Fusion Applications V1.0, the service provider model centralizes only the procurement business function. Your business units that have the requisitioning business function enabled can define relationships with business units that have the procurement business function enabled. These service provider business units will process requisitions and negotiate supplier terms for their client business units.

This functionality is used to frame service level agreements and drive security. The definition of service provider relationships provides you with a clear record of how the operations of your business are centralized. For other centralized processing, business unit security is used (known in Oracle EBS as Multi-Org Access Control). This means that users who work in a shared service center have the ability to get access and process transactions on behalf of many business units.

Project Units: Explained

Project units are operational subsets of an enterprise that conduct business operations using projects and need to enforce consistent project planning, management, analysis, and reporting. Project units often represent lines of business, such as Consulting Services, Sales, and Research and Development. You must set up at least one project unit to use in Oracle Fusion Projects.

You can maintain independent setup data for each project unit while sharing a single approach to financial management across all project units. The following diagram shows two project units that share a common approach to financial management and data. Each project unit maintains separate reference data for managing projects.



General Properties

General property options include the default reference data set to be used for any new reference data object associated with the project unit. You can override the default set for each reference data object. The method of project number creation, either manual or automatic, and daily or weekly full time equivalent hours for reporting purposes, are also included in general properties.

Set Assignments

You assign sets to project units to determine how reference data is shared across different lines of business in a company. A project unit is a set determinant for the following objects.

- Project definition, which includes set-enabled reference data for the project definition such as class code, financial plan type, project role, and project status.
- Project transaction types, which includes set-enabled reference data for project transactions such as project expenditure type and project work type.

Set assignment configuration includes the following options for each project unit.

- Reference set value. By default, the set for each reference data object is from the default set specified for the project unit.
- Reference data objects for the project definition and project transaction types.

Related Business Units

You associate business units with a project unit to identify the business units that are accountable for financial transactions of projects in each project unit. You can change the project unit and business unit association if the combination has not been used on a project or project template. If a business unit is not associated with any project unit, then the business unit is valid for all project units.

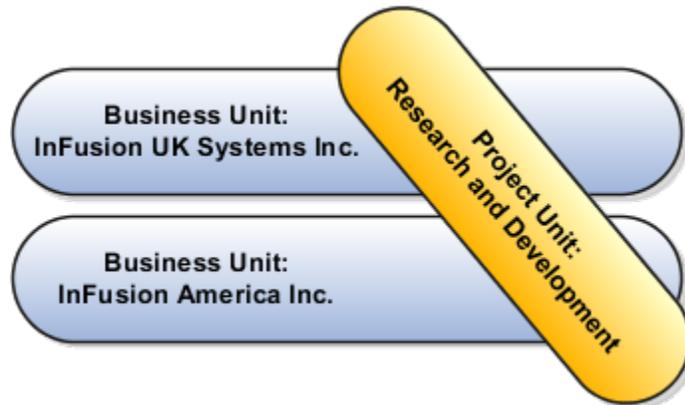
Business Units and Projects: Explained

Business units are subsets of an enterprise that perform one or more business functions and can be consolidated in both a managerial and legal hierarchy. Project accounting is an example of a business function that is set up by business unit. Other examples are billing and revenue management, customer contract management, and payables invoicing.

Business units are defined centrally. During implementation, you must enable the Project Accounting business unit for use with Oracle Fusion Projects.

You can partition financial data using business units while sharing a single approach to project management across all business units. The following diagram shows two business units, one from the United Kingdom (UK) and one from the United States (US). These business units have the same research and

development processes, so a single project unit is used by both business units to facilitate common project management practices.



Project Setup

Each business unit that you enable requires implementing project setup options for the following areas:

- Project and task owning organizations are associated with the business unit to restrict these organizations in project creation flow.

Note

To own projects or tasks, an organization must be classified as project and task owning organization, belong to the hierarchy associated with the business unit, and be active on the system date. The project type class must be permitted to use the organization to create projects.

Note

A project can be associated with only one business unit.

- Project expenditure organizations are associated with the business unit to restrict which organizations can incur costs on the project.
- Project costing establishes calendar, asset, overtime, and processing options for project-related costs.
- Project units are associated with business units to restrict the business units that can handle project transactions. When a project unit is not associated with a business unit, any business unit in your enterprise can process project transactions.
- Cross-charge transaction options define conversion rate and date types and cross-charge transaction processing methods.
- Customer contract management defines business function properties, such as currency conversion, cross-charge transaction, and billing options, for each contract business unit.

Reference Data Sharing

Assign sets to business units to determine how reference data is shared across applications. A business unit is a set determinant for the following objects:

- Project accounting definition, including set-enabled reference data such as project type.
- Project and contract billing, including set-enabled reference data such as invoice format.
- Project rates, including set-enabled reference data such as rate schedules.

What's the difference between a business unit and a project unit?

Use business units to control and report on financial transactions. For each business unit, you configure fundamental operating settings to control project setup, expenditure processing, and cross-charge transaction processing.

Use project units to enforce consistent project management practices for projects across multiple business units. For each project unit, you configure project management settings such as the default set assignment, project numbering series, full-time equivalent hours, related business units, and reporting options.

What's the difference between business units in PeopleSoft and Oracle Fusion Applications?

PeopleSoft business units and Oracle E-Business Suite operating units have been combined to create the new Oracle Fusion Applications business unit functionality.

In PeopleSoft Enterprise, a business unit housed the configuration of only one business function.

A business unit can be configured for multiple business functions in Oracle Fusion Applications. The advantage is you no longer have to name multiple business units with the same name as you did in PeopleSoft Enterprise.

In PeopleSoft Enterprise, business units can be consolidated in a hierarchy. You can see the results of a single business unit or a set of business units. PeopleSoft Enterprise also allows you to produce financial statements for a business unit.

In Oracle Fusion Applications, this is accomplished by creating a business unit representation in a chart of accounts and building appropriate hierarchies.

What's the difference between business units in Oracle E-Business Suite and Oracle Fusion Applications?

In Oracle E-Business Suite, operating units are used to determine in which ledger a given subledger transaction is accounted and to partition setup reference data, processing and security.

In Oracle Fusion Applications, enable business units with all their business functions to replace your operating units in the Oracle E-Business Suite. Oracle Fusion Applications provide the additional functionality of assigning a manager to the business unit.

Modeling Your Business Units in Your Enterprise Structure in Oracle Fusion: Example

This example uses a fictitious global company to demonstrate the business unit analysis that can occur during the enterprise structure configuration planning process.

Scenario

Your company, InFusion Corporation, is a multinational conglomerate that operates in the United States (US) and the United Kingdom (UK). InFusion has purchased an Oracle Fusion enterprise resource planning (ERP) solution including Oracle Fusion General Ledger and all of the Oracle Fusion subledgers. You are chairing a committee to discuss creation of a model for your global enterprise structure including both your US and UK operations.

InFusion Corporation

InFusion Corporation has 400 plus employees and revenue of \$120 million. Your product line includes all the components to build and maintain air quality monitoring (AQM) systems for homes and businesses. You have two distribution centers and three warehouses that share a common item master in the US and UK. Your financial services organization provides funding to your customers for the start up costs of these systems.

Analysis

The following are elements you need to consider in creating your business units for your global enterprise structure.

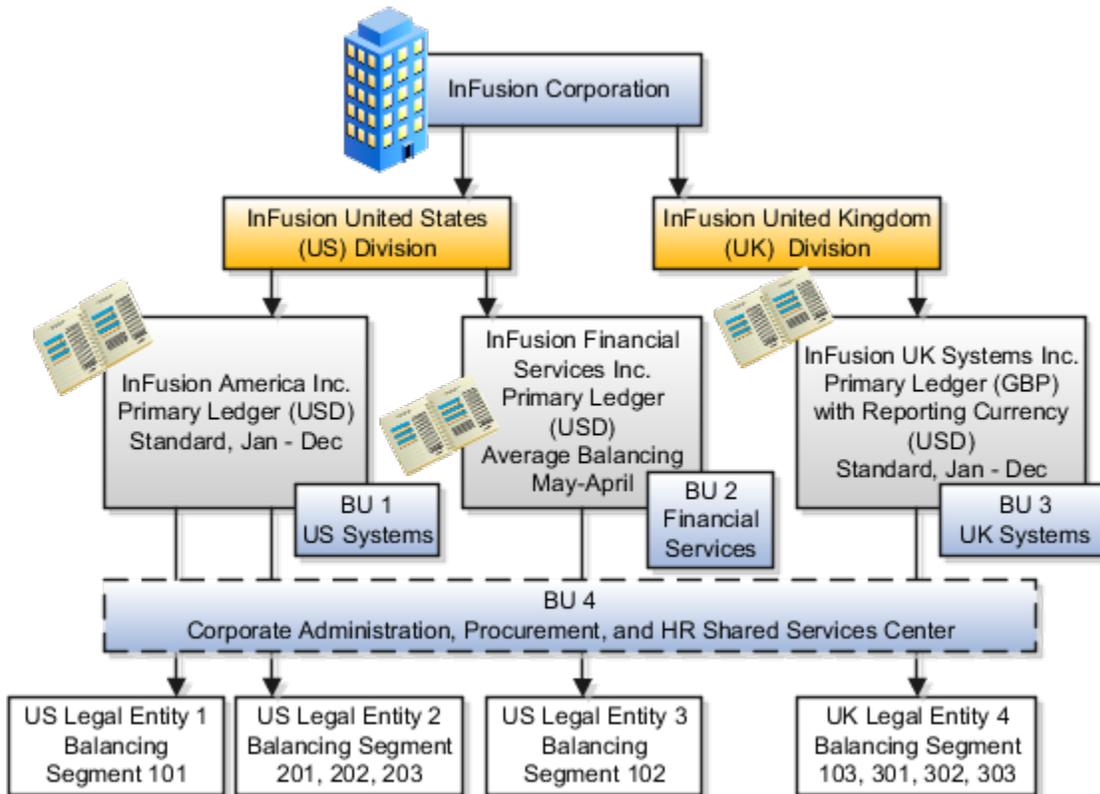
- At which level do you track profit and loss (revenue and expenses) and strategic objectives?
- Do you require balance sheet for your management entities? Is capital utilization reported on the level of business units?
- Do you use business units and balancing segments to represent your businesses and divisions?
- Do you secure data by a segment representing each department or legal entity or both to produce useful, but confidential management reports?
- Is your procurement centralized, or do individual business units perform the procurement function?
- Can your business units process transactions on behalf of many legal entities?

- How do you want to represent your business units and divisions in the chart of accounts?
- How will your business units be represented in ledgers?

Global Enterprise Structure Model With Business Unit

The following figure summarizes the model that your committee has designed and uses numerical values to provide a sample representation of your structure. The model includes the recommendation to create four separate business units (BU):

- InFusion America Inc. has BU 1: US Systems and BU 4: Corporate Processing Shared Service Center
- InFusion Financial Services Inc. has BU 2: Financial Services
- InFusion UK Services Inc. has BU 3: UK Systems



Business Units 1, 2, and 3 record the transactions of their respective legal entities. Business Unit 4 processes the corporate level transactions, including payable, procurement and human resource functions for the entire enterprise. The implementation of BU 4 reduces administrative costs, provides consistent enforcement of company policies, and improves efficiency across the organization.

Financial Reporting Structures

Representing Your Enterprise Structure in Your Financial Reporting Structure: Overview

Represent your enterprise structures in your chart of accounts to track and report on your financial objectives and meet your reporting requirements. The benefit of representing your enterprise in the chart of accounts is the Oracle Fusion General Ledger functionality which includes multidimensional reporting with its Essbase tool. Segments included in the chart of account become dimensions in Essbase. The recorded data is automatically loaded into the Essbase cube when you post your journal entries. The Essbase tool includes powerful functionality for analysis and reporting on your financial data.

Chart of Accounts: Explained

The chart of accounts is the underlying structure for organizing financial information and reporting. An entity records transactions with a set of codes representing balances by type, expenses by function, and other divisional or organizational codes that are important to its business.

A well-designed chart of accounts provides the following benefits:

- Effectively manages an organization's financial business
- Supports the audit and control of financial transactions
- Provides flexibility for management reporting and analysis
- Anticipates growth and maintenance needs as organizational changes occur
- Facilitates an efficient data processing flow
- Allows for delegation of responsibility for cost control, profit attainment, and asset utilization
- Measures performance against corporate objectives by your managers

The chart of accounts facilitates aggregating data from different operations, from within an operation, and from different business flows, thus enabling the organization to report using consistent definitions to their stakeholders in compliance with legislative and corporate reporting standards and aiding in management decisions.

Best practices include starting the design from external and management reporting requirements and making decisions about data storage in the general ledger, including thick versus thin general ledger concepts.

Thick Versus Thin General Ledger: Critical Choices

Thick versus thin general ledger is standard terminology used to describe the amount of data populated and analysis performed in your general ledger. Thick and thin are the poles; most implementations are somewhere in between. Here are some variations to consider:

- A general ledger used in conjunction with an enterprise profitability management (EPM) product, which has data standardized from each operation, is designed as a thin general ledger. Use this variation if your solution is Project based, and Oracle Fusion Projects is implemented. More detailed reporting can be obtained from the Projects system. In the thin general ledger, business units, divisions, and individual departments are not represented in the chart of accounts.
- A general ledger, with segments representing all aspects and capturing every detail of your business, with frequent posting, many values in each segment, and many segments, is called a thick general ledger. A thick general ledger is designed to serve as a repository of management data for a certain level of management. For example, a subsidiary's general ledger is designed to provide the upper management enough data to supervise operations, such as daily sales, without invoice details or inventory without part number details.
- A primary ledger and a secondary ledger, where one is a thick general ledger and the other a thin general ledger, provides dual representation for reporting requirements that require more than one ledger.

Thin General Ledger

With a thin general ledger, you use the general ledger for internal control, statutory reporting, and tracking of asset ownership. You minimize the data stored in your general ledger. A thin general ledger has many of the following characteristics:

- Minimal chart of accounts
 - Short list of cost centers
 - Short list of natural accounts
 - Short list of cost accounts
 - Summary level asset and liability accounts
 - Low number of optional segments
- Infrequent posting schedule

A thin general ledger has natural accounts at a statutory reporting level, for example, payroll expense, rent, property taxes, and utilities. It has cost centers at the functional expense level, such as Research and Development (R&D) or Selling, General, and Administrative (SG&A) expense lines, rather than at

department or analytic levels. It omits business unit, division, and product detail.

One example of an industry that frequently uses a thin general ledger is retail. In a retail organization, the general ledger tracks overall sales numbers by region. A retail point of sales product tracks sales and inventory by store, product, supplier, markup, and other retail sales measures.

Thick General Ledger

With a thick general ledger, you use the general ledger as a detailed, analytic tool, performing analytic functions directly in the general ledger. Data is broken down by many reporting labels, and populated frequently from the subledgers.

You maximize the data stored in the general ledger. A thick general ledger has many of the following characteristics:

- Maximum use of the chart of accounts
 - Long list of natural accounts
 - Long list of cost centers
 - Long list of costing accounts
 - Detailed asset and liability accounts
- Frequent posting schedule

In a thick general ledger, you obtain detail for cost of goods sold and inventory balances and track property plant and equipment at a granular level. Cost centers represent functional expenses, but also roll up to departmental or other expense analysis levels. Using product and location codes in optional segments can provide reporting by line of business. Posting daily, at the individual transaction level, can maximize the data stored in the general ledger.

One example of an industry that frequently uses a thick general ledger is electronic manufacturers. Detail on the revenue line is tagged by sales channel. Product is structured differently to provide detail on the cost of goods sold line, including your bill of materials costs. The general ledger is used to compare and contrast both revenue and cost of goods sold for margin analysis.

Other Considerations

Consider implementing a thick ledger if there are business requirements to do any of the following:

- Track entered currency balances at the level of an operational dimension or segment of your chart of accounts, such as by department or cost center
- Generate financial allocations at the level of an operational dimension or segment
- Report using multiple layered and versioned hierarchies of the operational dimension or segment from your general ledger

Consider implementing a thin ledger in addition to a thick ledger, if there are additional requirements for:

- Minimal disclosure to the authorities in addition to the requirements listed above. For example, in some European countries, fiscal authorities examine ledgers at the detailed account level.

- Fiscal only adjustments, allocations, and revaluations, which don't impact the thick general ledger.

The important consideration in determining if a thick ledger is the primary or secondary ledger is your reporting needs. Other considerations include how the values for an operational dimension or segment are derived and the amount of resources used in reconciling your different ledgers. If values for the operational dimension are always entered by the user like other segments of the accounting flexfield, then a thick primary ledger is the better choice.

However, if values for the operational dimension or segment are automatically derived from other attributes on the transactions in your subledger accounting rules, rather than entered in the user interface, then use a thick secondary ledger. This decision affects the amount of:

- Storage and maintenance needed for both the general ledger and subledger accounting entries
- System resources required to perform additional posting
- In summary, you have:
 - Minimum demand on storage, maintenance, and system resources with the use of a thin ledger
 - Greater demand on storage, maintenance, and system resources with the use of a thick ledger
 - Greatest demand on storage, maintenance and system resources with the use of both thick and thin ledgers

Note

Generally speaking, there is a trade off between the volume of journals and balances created and maintained versus system resource demands. Actual performance depends on a wide range of factors including hardware and network considerations, transaction volume, and data retention policies.

Summary

The factors you need to consider in your decision to use a thick or thin general ledger for your organization, are your:

- Downstream EPM system and its capabilities
- Business intelligence system and its capabilities
- Subledger systems and their capabilities and characteristics, including heterogeneity
- General ledger reporting systems and their capabilities
- Maintenance required for the thick or thin distributions and record keeping
- Maintenance required to update value sets for the chart of accounts segments
- Preferences of the product that serves as a source of truth
- Level at which to report profitability including gross margin analysis
- Industry and business complexity

Chart of Accounts: How Its Components Fit Together

There are several important elements to the basic chart of accounts in Oracle Fusion Applications: a structure that defines the account values, segments, and their labels, and rules (security and validation). Account combinations link the values in the segments together and provide the accounting mechanism to capture financial transactions.

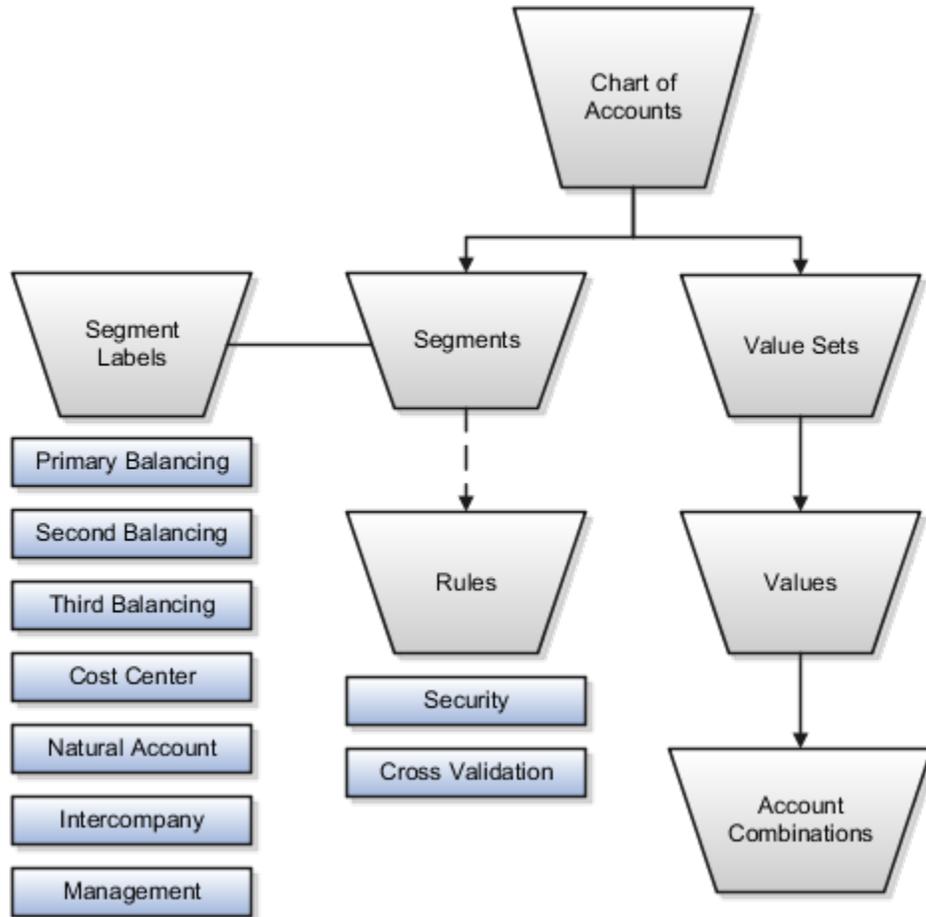


Chart of Account

The chart of accounts defines the number and attributes of various segments, including the order of segments, the width of segments, prompts, and segment labels, such as balancing, natural account, and cost center.

The chart of accounts further defines the combination of value sets associated with each segment of the chart of accounts, as well as the type, default value, additional conditions designating the source of the values using database tables, and the required and displayed properties for the segments.

Segments

A chart of accounts segment is a component of the account combination. Each segment has a value set attached to it to provide formatting and validation of the set of values used with that segment. The combination of segments creates the account combination used for recording and reporting financial transactions.

Examples of segments that may be found in a chart of accounts are company, cost center, department, division, region, account, product, program, and location.

Value Sets and Values

The value sets define the attributes and values associated with a segment of the chart of accounts. You can think of a value set as a container for your values. You can set up your flexfield so that it automatically validates the segment values that you enter against a table of valid values. If you enter an invalid segment value, a list of valid values appears automatically so that you can select a valid value. You can assign a single value set to more than one segment, and you can share value sets across different flexfields.

Segment Labels

Segment labels identify certain segments in your chart of accounts and assign special functionality to those segments. Segment labels were referred to as flexfield qualifiers in Oracle E-Business Suite (EBS). Here are the segment labels that are available to use with the chart of accounts.

- **Balancing:** Ensures that all journals balance for each balancing segment value or combination of multiple balancing segment values to use in trial balance reporting. There are three balancing segment labels: primary, second, and third balancing. The primary balancing segment label is required.
- **Cost Center:** Facilitates grouping of natural accounts by functional cost types, accommodating tracking of specific business expenses across natural accounts. As cost centers combine expenses and headcount data into costs, they are useful for detailed analysis and reporting. Cost centers are optional, but required if you are accounting for depreciation, additions, and other transactions in Oracle Fusion Assets, and for storing expense approval limits in Oracle Fusion Expense Management.
- **Natural Account:** Determines the account type (asset, liability, expense, revenue, or equity) and other information specific to the segment value. The natural account segment label is required.
- **Management:** Optionally, denotes the segment that has management responsibility, such as the department, cost center, or line of business. Also can be attached to the same segment as one of the balancing segments to make legal entity reporting more granular.
- **Intercompany:** Optionally, assigns the segment to be used in intercompany balancing functionality.

Note

All segments have the segment qualifier that enables posting for each value. The predefined setting is Yes to post.

Account Combinations

An account combination is a completed code of segment values that uniquely identifies an account in the chart of accounts, for example 01-2900-500-123, might represent InFusion America (company)-Monitor Sales (division)-Revenue (account)-Air Filters (product).

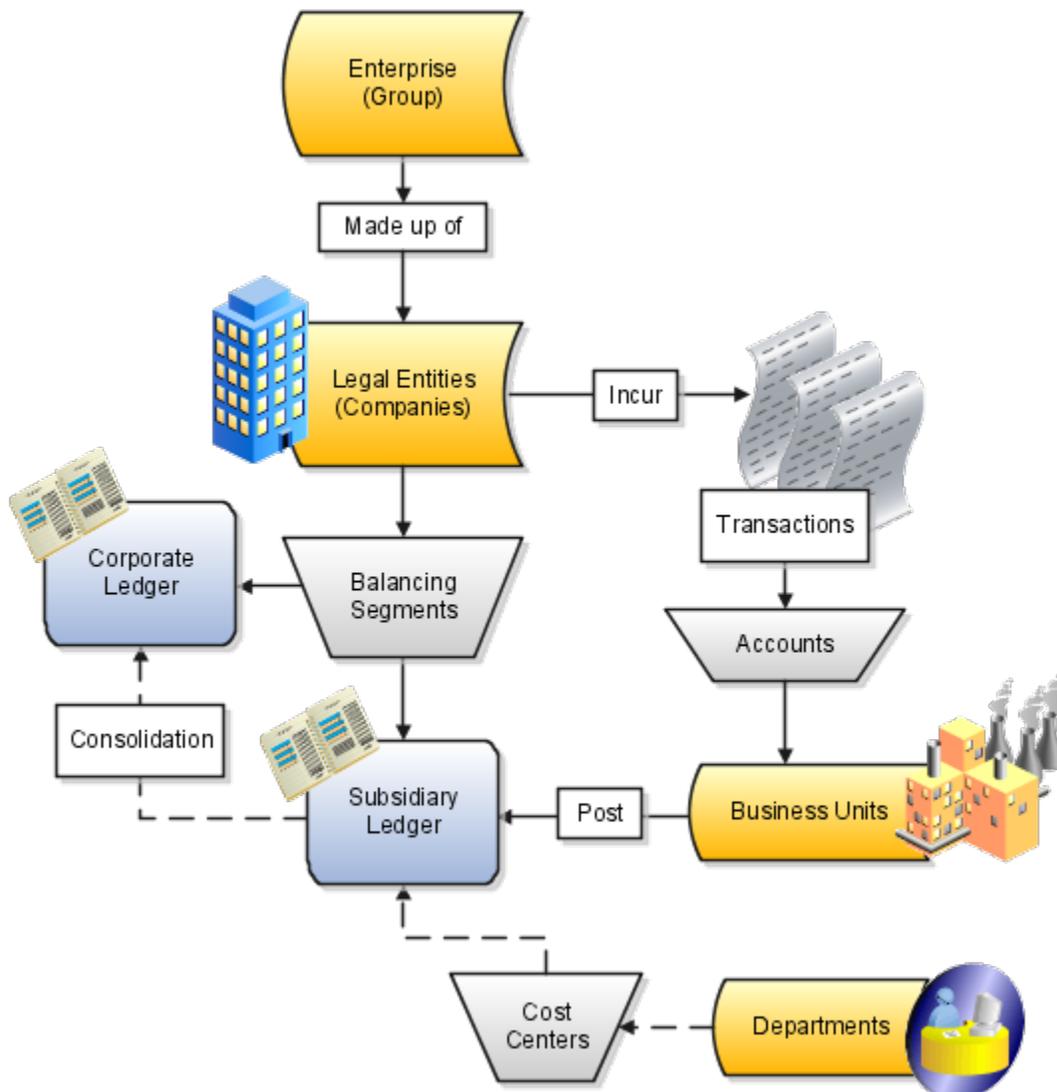
Rules

The chart of accounts uses two different types of rules to control functionality.

- Security rules: Prohibit certain users from accessing specific segment values. For example, you can create a security rule that grants a user access only to his or her department.
- Cross-validation rules: Control the account combinations that can be created during data entry. For example, you may decide that sales cost centers 600 to 699 should enter amounts only to product sales accounts 4000 to 4999.

Financial Enterprise Structure: How It Fits Together

Oracle Fusion Applications is an integrated suite of business applications that connects and automates the entire flow of the business process across both front and back office operations and addresses the needs of a global enterprise. The process of designing the enterprise structure, including the accounting configuration, is the starting point for an implementation. This process often includes determining financial, legal, and management reporting requirements and examining consolidation considerations.



Accounting Configuration Components

The accounting configuration components are:

- **Ledgers:** A ledger is the main record-keeping structure. A ledger records transactional balances by defining a chart of accounts with a consistent calendar and currency, and accounting rules, implemented in an accounting method. The ledger is associated with the subledger transactions for the business units that are assigned to it, and provides context and accounting for them.
- **Balancing Segments:** Oracle Fusion Applications use the chart of account element, balancing segment, to represent and track both legal and management entities. Specifically, Oracle Fusion Applications provide a primary balancing segment to represent your legal entities, and additional balancing segments, you can implement for management reporting and analysis.

Balancing segments provide automatic balancing functionality by legal entity for journal entries, including intercompany and intracompany entries, suspense posting, and rounding imbalances.

- **Cost Centers:** Cost centers aggregate elements of natural expenses to identify functional costs. A cost center can be the smallest segment of an organization for which costs are collected and reported. Not all cost centers represent organizations. A manager is assigned responsibility for cost control and is assigned both a department and a cost center; in which case the cost center and department might be identified with each other. However, a finance department manager might have separate cost centers for finance cost and audit costs, and an R&D department manager might have separate cost centers for research and development.

Cost centers are represented by segment values in the chart of accounts that indicate the functional areas of your business, such as accounting, facilities, shipping, or human resources. You might keep track of functional areas at a detailed level, but produce summary reports that group cost centers into one or more departments. Cost center values are also used by Oracle Fusion Assets to assist the managers in tracking locations and accounting for assets assigned to their departments.

- **Accounts:** The account segment is a code in the chart of accounts that uniquely identifies each type of transactions recorded in the ledger and subledgers. The account segment is mapped to a dimension in the Essbase cube to enable reporting and inquiry. This functionality uses Oracle Fusion Business Intelligence Edition to analyze and drill into expense and revenue transactions.

Representing Legal Entities, Business Units, Departments in Chart of Accounts

The following list provides information on how to represent legal entities, business units, and departments in chart of accounts.

- **Representing Legal Entities in the Chart of Accounts:** Legal entity is the term used in Oracle Fusion Applications for registered companies and

other organizations recognized in law as having a legal existence and as parties with given rights and responsibilities.

Legal entities are created in the applications and then assigned balancing segment values, sometimes called company codes in your ledgers during accounting configuration.

- **Representing Business Units in the Chart of Accounts:** A business unit (BU) is part of an enterprise managed by a manager with profit and loss responsibility. The business unit is generally tracked in the chart of accounts. A business unit can be represented by a single ledger. For example, in countries where you need document sequencing for unique transaction sequencing within a legal entity, you can have a single ledger with a single business unit and legal entity.

A business unit can also be identified in the chart of accounts as a:

- Management segment value
- Balancing segment value
- Roll up of cost center segments using hierarchies

For example, a business unit manager is responsible for working capital utilization or overall asset utilization. You identify the business unit as a balancing segment value, to enable calculation of ratios for various utilization measurements.

A business unit is assigned to a primary ledger, as well as a default legal entity when it is configured. A BU identifies the primary ledger that subledger transactions are posted to, facilitating the use of more than one BU per general ledger. Each business unit posts transactions to a single primary ledger. For example, a shared service center handles all the procurement functions for the entire company. The procurement transactions are posted to the business unit's ledger with intercompany entries to other ledgers as needed.

- **Representing Departments in the Chart of Accounts:** A department is an organizational structure with one or more operational objectives or responsibilities that exist independently of its manager and that has one or more employees assigned to it. The manager of a department is typically responsible for business deliverables, personnel resource management, competency management, and occasionally, for cost control and asset tracking.

In Oracle Fusion Applications, departments can be set up in Oracle Fusion Human Capital Management (HCM). If desired, they can also be represented by a unique segment in the chart of accounts or a group of cost center values.

Modeling Your Financial Reporting Structure in Oracle Fusion: Example

This example uses a fictitious global company to demonstrate the analysis that can occur during the financial reporting structure planning process.

Scenario

Your company, InFusion Corporation, is a multinational conglomerate that operates in the United States (US) and the United Kingdom (UK). InFusion has purchased an Oracle Fusion enterprise resource planning (ERP) solution including Oracle Fusion General Ledger and all of the Oracle Fusion subledgers. You are chairing a committee to discuss creation of a model for your global financial reporting structure including your chart of accounts for both your US and UK operations.

InFusion Corporation

InFusion Corporation has 400 plus employees and revenue of \$120 million. Your product line includes all the components to build and maintain air quality monitoring (AQM) systems for homes and businesses. You have two distribution centers and three warehouses that share a common item master in the US and UK. Your financial services organization provides funding to your customers for the start up costs of these systems.

Analysis

The following are elements you need to consider in creating your model for your financial reporting structure.

- Your company is required to report using US GAAP standards and UK Statements of Standard Accounting Practice and Financial Reporting Standards. How many ledgers do you need to achieve proper statutory reporting?
- Your financial services line of business has a different year end. Do you need a different calendar? Your financial services entity must report with average balance sheets. This feature of Oracle Fusion General Ledger provides you with the ability to track average and end-of-day balances, report average balance sheets, and create custom reports using both standard and average balances.
- Your corporate management requires reports showing total organizational performance with drill down capability to the supporting details. Do you need multiple balancing segment hierarchies to achieve proper rollup of balances for reporting requirements?
- Legal entity balancing options: Do you need to produce financial statements by one or more than one legal entity? Can you record multiple legal entities in one ledger or do you require multiple ledgers? Are you upgrading to Oracle Fusion Applications or a new install? If an upgrade, is your current financial reporting structure meeting your reporting needs?

Global Financial Reporting Model

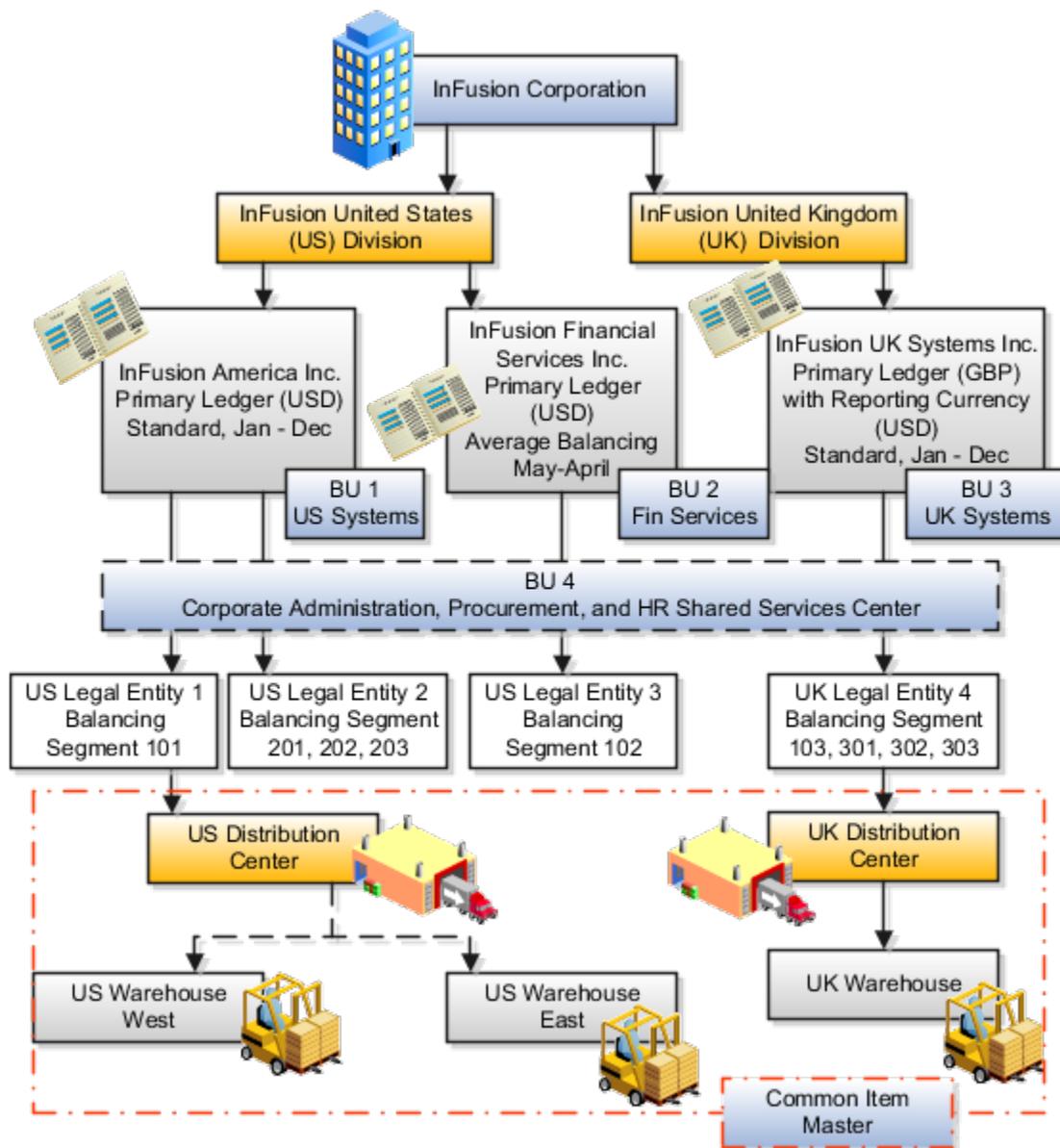
The following figure and table summarize the model that your committee has designed and uses numerical values to provide a sample representation of your financial reporting structure. The model includes the following recommendations:

- Creation of three separate ledgers representing your separate legal entities:

- InFusion America Inc.
- InFusion Financial Services Inc.
- InFusion UK Services Inc.
- Data security is controlled by balancing segment values using Oracle Fusion General Ledger data access sets

Recommendations for the chart of accounts design include:

- Segments required for cost centers with hierarchical rollups to departments providing reporting at both the detail (cost center) and summary (department) level.
- Accounts configured to provide drill down capability to the subledger transactions, enabling analysis of data.



Decision	InFusion America, Inc.	InFusion Financial Services, Inc.	InFusion UK Systems, Inc.
Type of Ledgers	Primary	Primary	Primary with the use of Reporting Currency functionality
Legal Entity Codes	US Legal Entity 1: US Corporate US Legal Entity 2: US Systems	US Legal Entity 3: US Financial Services	UK Legal Entity 4: UK Systems
Balancing Segments	101: US Corporate 201: US Systems Components 202: US Systems Installations 203: US Systems Maintenance	102: US Financial Services	103: UK Systems 301: Components 302: UK Systems Installations 303: UK Systems Maintenance
Currencies for Reporting	US Dollar (USD)	US Dollar (USD)	Great Britain Pounds (GBP) US Dollar (USD)
Calendar Ending date	December 31st	April 30th	December 31st
Business Units (BU)*	BU 1: US Systems BU 4: Corporate (Shared Service Center)	BU 2: Financial Services	BU 3: UK Systems
Balances Storage Method	Standard Balances	Average and Standard Balances	Standard Balances
Locations represented by cost centers in the chart of accounts.	Headquarters US Distribution Center (BU 1) US Warehouse West US Warehouse East	Headquarters	UK Distribution Center (BU 3) UK Warehouse

Note

In the chart of accounts, cost centers, with hierarchical rollups, represent business units.

Note

InFusion Corporation is also a legal entity but is not discussed in this example.

Cost Centers and Departments

Cost Centers and Departments: Explained

A cost center represents the smallest segment of an organization for which costs are collected and reported. A department is an organization with one or more operational objectives or responsibilities that exist independently of its manager and has one or more workers assigned to it.

The following two components need to be considered in designing your enterprise structure:

- Cost centers
- Departments

Cost Centers

A cost center also represents the destination or function of an expense as opposed to the nature of the expense which is represented by the natural account. For example, a sales cost center indicates that the expense goes to the sales department.

A cost center is generally attached to a single legal entity. To identify the cost centers within a chart of accounts structure use one of these two methods:

- Assign a cost center value in the value set for each cost center. For example, assign cost center values of PL04 and G3J1 to your manufacturing teams in the US and India. These unique cost center values allow easy aggregation of cost centers in hierarchies (trees) even if the cost centers are in different ledgers. However, this approach will require defining more cost center values.
- Assign a balancing segment value with a standardized cost center value to create a combination of segment values to represent the cost center. For example, assign the balancing segment values of 001 and 013 with cost center PL04 to represent your manufacturing teams in the US and India. This creates 001-PL04 and 013-PL04 as the cost center reporting values.

The cost center value of PL04 has a consistent meaning. This method requires fewer cost center values to be defined. However, it prevents construction of cost center hierarchies using trees where only cost center

values are used to report results for a single legal entity. You must specify a balancing segment value in combination with the cost center values to report on a single legal entity.

Departments

A department is an organization with one or more operational objectives or responsibilities that exist independently of its manager. For example, although the manager may change, the objectives do not change. Departments have one or more workers assigned to them.

A manager of a department is typically responsible for:

- Controlling costs within their budget
- Tracking assets used by their department
- Managing employees, their assignments, and compensation

Note

The manager of a sales department may also be responsible for meeting the revenue targets.

The financial performance of departments is generally tracked through one or more cost centers. In Oracle Fusion Applications, departments are defined and classified as Department organizations. Oracle Fusion Human Capital Management (HCM) assigns workers to departments, and tracks the headcount at the departmental level.

The granularity of cost centers and their relationship to departments varies across implementations. Cost center and department configuration may be unrelated, identical, or consist of many cost centers tracking the costs of one department.

Department Classifications: Points to Consider

A department can be classified as a project organization, sales and marketing organization, or cost organization.

Oracle Fusion Human Capital Management (HCM) uses trees to model organization hierarchies. It provides seeded tree structures for department and other organizational hierarchies that can include organizations with any classification.

Project Organization

Classify departments as a project owning organization to enable associating them with projects or tasks. The project association is one of the key drivers for project access security.

In addition, you must classify departments as project expenditure organizations to enable associating them to project expenditure items. Both project owning organizations and project expenditure organizations can be used by Oracle

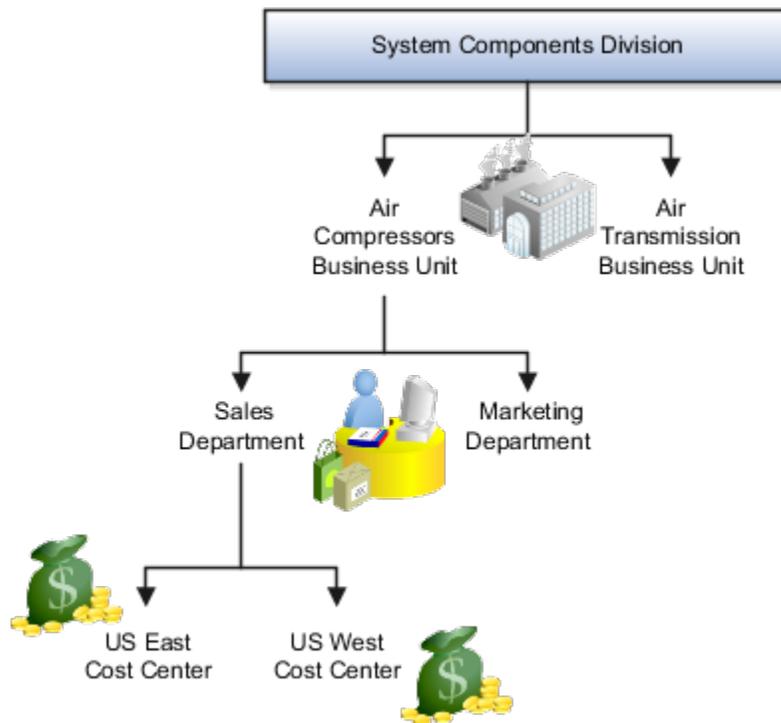
Fusion Subledger Accounting to derive accounts for posting Oracle Fusion Projects accounting entries to Oracle Fusion General Ledger.

Sales and Marketing Organization

In Oracle Fusion Customer Relationship Management (CRM), you can define sales and marketing organizations. Sales organization hierarchies are used to report and forecast sales results. Sales people are defined as resources assigned to these organizations.

In some enterprises, the HCM departments and hierarchies correspond to sales organizations and hierarchies. It is important to examine the decision on how to model sales hierarchies in relationship to department hierarchies when implementing customer relationship management to eliminate any possible redundancy in the definition of the organizations.

The following figure illustrates a management hierarchy, in which the System Components Division tracks its expenses in two cost centers, Air Compressors and Air Transmission. At the department level, two organizations with a classifications of Department are defined, the Marketing Department and Sales Department. These two departments can be also identified as a Resource Organizations, which will allow assigning resources, such as sales people, and other CRM specific information to them. Each department is represented in the chart of accounts by more than one cost center, allowing for granular as well as hierarchical reporting.



Cost Organization

Oracle Fusion Costing uses a cost organization to represent a single physical inventory facility or group of inventory storage centers, for example, inventory

organizations. This cost organization can roll up to a manager with responsibility for the cost center in the financial reports.

A cost organization can represent a costing department. Consider this relationship when determining the setup of departments in HCM. There are no system dependencies requiring these two entities, cost organization and costing department, be set up in the same way.

What's a project and task owning organization?

Every project is owned by an organization that is used for reporting, security, and accounting. An organization can own specific types of projects, such as indirect projects, capital projects, billable projects, and capital contract projects. On a contract project, the project owning organization can also be used in the accounting rules to determine which general ledger cost center will receive credit for the revenue. Assign project and task owning organizations to project units to specify which organizations are available to own the project.

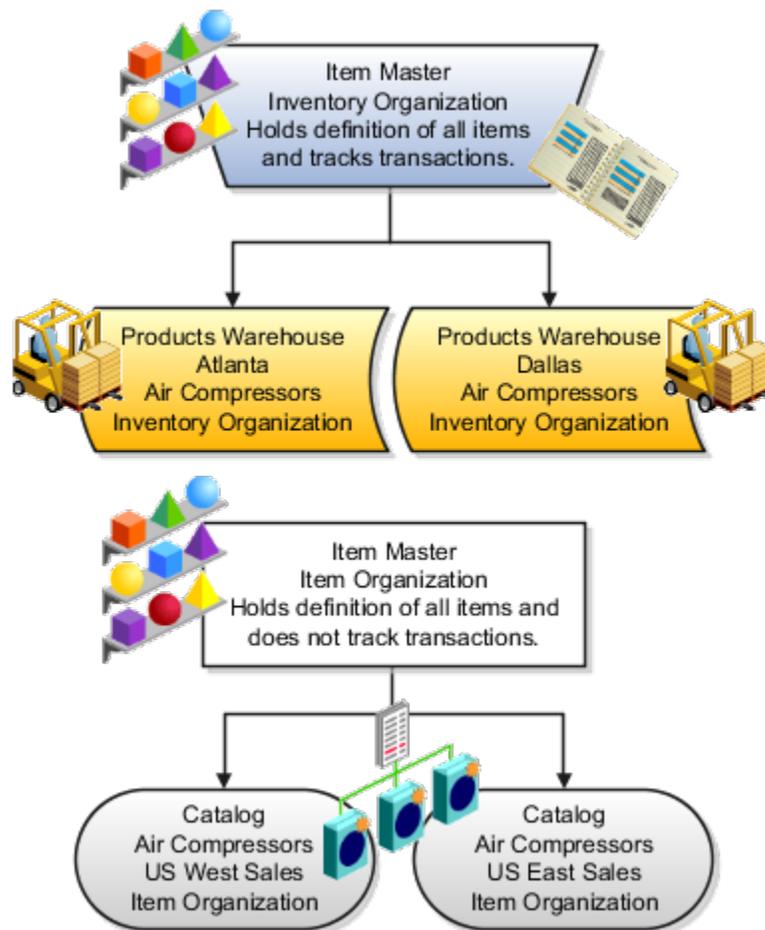
What's a project expenditure organization?

A project expenditure organization is one that can incur expenditures and hold financial plans for projects. For an organization to be eligible to be a project expenditure organization you must assign the organization the Project Expenditure Organization classification, and the organization must be assigned to the hierarchy that you specify in the project implementation options for the business unit.

Item Master Organization: Explained

An item master organization lists and describes items that are shared across several inventory organizations or item organization.

The following example shows the choice between inventory organizations that track inventory transactions, stored in two warehouses, and item organizations that just track items, listed in two sales catalogs.



For the most efficient processing, you should:

- Have a single item master
- Include an item and its definition of form, fit, and function only once in the item master
- Separate the item master organization from organizations that store and transact items

Note

Oracle Fusion allows multiple item masters, however, use this capability cautiously. If you acquire a company, there may be value in allowing the old item master to exist for a transition period. If you manage your subsidiaries as separate businesses, there may be reduced value in a single item master.

Item Organization: Explained

An item organization defines an item when inventory balances are not stored and inventory storage or inventory movement is not reflected in the Oracle Fusion Applications. For example, you would use an item organization in a retail scenario, if you need to know the items that are listed by and sold through each retail outlet even though inventory and transactions are recorded in another system. In Oracle Fusion Customer Relationship Management (CRM), item organizations are used to define sales catalogs.

Note

- Items belong to an item organization.
 - Item attributes that are associated with financial and accounting information are hidden from the item if it exists within the item organization.
 - Item organizations can be changed by administrators to an inventory organization by updating the necessary attributes. There is no difference in the way items are treated in these two types of organizations except that there cannot be any financial transactions in the downstream applications for items that are assigned to an item organization.
-

Inventory Organization: Critical Choices

In Oracle Fusion, storage facilities, warehouses, and distribution centers are implemented as inventory organizations.

Inventory organizations are:

- Managed by a business unit, with the materials management business function enabled.
- Mapped to a legal entity and a primary ledger.

There are two types of inventory organizations:

- Manufacturing facilities

- Storage facilities

Storage and manufacturing facilities are related to other organizational entities through a business unit that stores, manufactures, and distributes goods through many factories, warehouses, and distribution centers. The material parameters are set for both the facilities, enabling movement of material in the organization. This business unit has the business function of Materials Management enabled. Oracle Fusion Applications allow many inventory organizations to be assigned to one business unit.

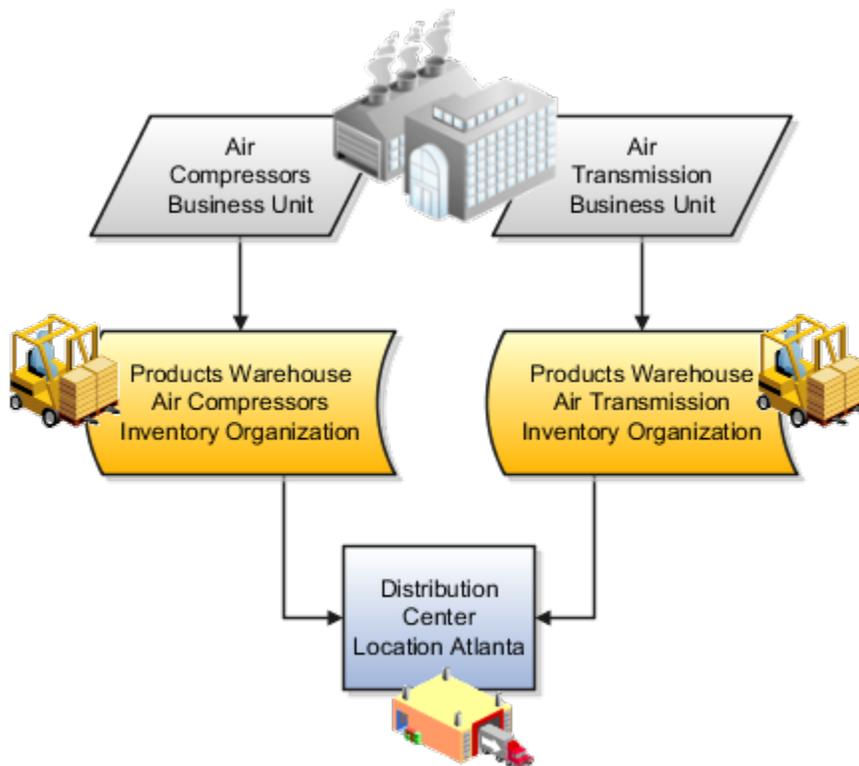
Note

Currently, Oracle Fusion Applications do not include manufacturing capabilities, so setup your manufacturing facilities outside of Oracle Fusion applications.

Distribution Center as an Inventory Organization

A distribution center can store inventory that is the responsibility of different business units. In this situation, assign an inventory organization to each business unit as a representation of the inventory in the distribution center. The multiple inventory organizations representing the inventory are defined with the same location to show that they are a part of the same distribution center.

In the following figure the two business units, Air Compressors and Air Transmission, share one distribution center in Atlanta. The two inventory organizations, Air Compressors and Air Transmission represent the inventory for each business unit in the Atlanta distribution center and are both assigned the Atlanta location.

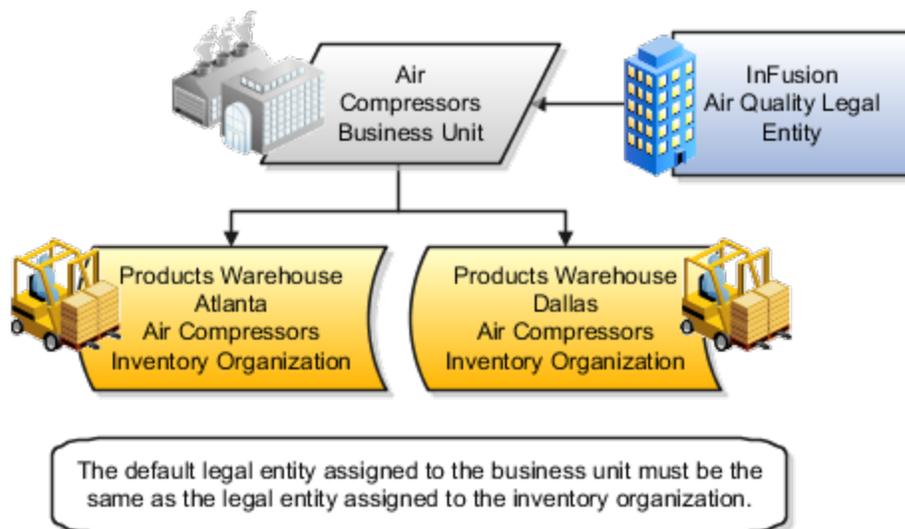


Legal Entities Own Inventory Organizations

A legal entity owns the inventory located in a storage or manufacturing facility. This ownership is assigned through the relationship of the inventory organization representing the inventory and the legal entity assigned to the inventory organization. The legal entity assigned to the inventory organization shares the same primary ledger as the inventory organization's business unit.

The inventory is tracked in the inventory organization owned by the legal entity of which the business unit is part. All transactions are accounted for in the primary ledger of the legal entity that owns the inventory.

The figure below illustrates the inventory owned by InFusion Air Quality legal entity. The InFusion Air Quality legal entity is associated with the Air Compressors business unit, which is associated with the two Air Compressors inventory organizations. Therefore, InFusion Air Quality legal entity owns the entire inventory in both the Dallas and Atlanta locations.



Facility Schedules Are Associated with Inventory Organizations

A prerequisite to defining an inventory organization is to define a facility schedule. Oracle Fusion Applications allow you to associate an inventory organization with a schedule.

Facility schedules allow creating workday calendars for inventory organizations that are used in the Oracle Fusion Supply Chain Management product family. For example, use workday calendars in the scheduling of cycle counts and calculating transit time.

Cost Organization: Explained

Cost organizations are used to establish cost accounting policies, data defaults, and user security policies for Oracle Fusion Costing. A cost organization

can potentially be spread across several physical locations or inventory organizations.

For example, you created inventory organizations for your manufacturing facility, finished goods warehouse, and distribution centers. Then, you used average costs for your items in the manufacturing facility and the finished goods warehouse, but used standard costs for the same items after they have moved to the distribution centers. In this case, your enterprise has three inventory organizations, but only two cost organizations.

Accounting and business needs determine the different cost organizations, inventory organizations, and cost book combinations required, as well as the cost profiles needed to calculate transaction costs.

All inventory organizations grouped under a cost organization must belong to the same legal entity. For every cost organization, you must designate one of its inventory organizations as the item validation organization, which means that all items in the cost organization use the item validation organization's units of measure for cost calculations. Define one or more cost organizations to meet your operational structure and reporting needs.

Note

A cost organization generally represents a costing department. Take costing departments into consideration when determining the setup of departments in Oracle Fusion Human Capital Management (HCM). There are no system dependencies on cost organizations and costing departments requiring the same setup.

Reference Data

Reference Data Sets and Sharing Methods: Explained

Oracle Fusion Applications reference data sharing feature is also known as SetID. The reference data sharing functionality supports operations in multiple ledgers, business units, and warehouses, thereby reducing the administrative burden and decreasing the time needed to implement new business units. For example, you can share sales methods, transaction types, or payment terms across business units or selected other data across asset books, cost organizations, or project units.

The reference data sharing features use reference data sets to which reference data is assigned. The reference data sets group assigned reference data. The sets can be understood as buckets of reference data assigned to multiple business units or other application components.

Reference Data Sets

You begin this part of your implementation by creating and assigning reference data to sets. Make changes carefully as changes to a particular set will affect all business units or application components using that set. You can assign a separate set to each business unit for the type of object that is being shared. For example, assign separate sets for payment terms, transaction types, and sales methods to your business units.

Your enterprise can decide that some aspects of corporate policy should affect all business units and leave other aspects to the discretion of the business unit manager. This allows your enterprise to balance autonomy and control for each business unit. For example, if your enterprise holds business unit managers accountable for their profit and loss, but manages working capital requirements at a corporate level, you can let managers define their own sales methods, but define payment terms centrally. In this case, each business unit would have its own reference data set for sales methods, and there would be one central reference data set for payment terms assigned to all business units.

The reference data sharing is especially valuable for lowering the cost of setting up new business units. For example, your enterprise operates in the hospitality industry. You are adding a new business unit to track your new spa services. The hospitality divisional reference data set can be assigned to the new business unit to quickly setup data for this entity component. You can establish other business unit reference data in a business unit specific reference data set as needed

Reference Data Sharing Methods

There are variations in the methods used to share data in reference data sets across different types of objects. The following list identifies the methods:

- Assignment to one set only, no common values allowed. The simplest form of sharing reference data that allows assigning a reference data object instance to one and only one set. For example, Asset Prorate

Conventions are defined and assigned to only one reference data set. This set can be shared across multiple asset books, but all the values are contained only in this one set.

- Assignment to one set only, with common values. The most commonly used method of sharing reference data that allows defining reference data object instance across all sets. For example, Receivables Transaction Types are assigned to a common set that is available to all the business units without the need to be explicitly assigned the transaction types to each business unit. In addition, you can assign a business unit specific set of transaction types. At transaction entry, the list of values for transaction types includes transaction types from the set assigned to the business unit, as well as transaction types assigned to the common set that is shared across all business units.
- Assignment to multiple sets, no common values allowed. The method of sharing reference data that allows a reference data object instance to be assigned to multiple sets. For instance, Payables Payment Terms use this method. It means that each payment term can be assigned to one or more than one set. For example, you assign the payment term Net 30 to several sets, but the payment term Net 15 is assigned to only your corporate business unit specific set. At transaction entry, the list of values for payment terms consists of only one set of data; the set that is assigned to the transaction's business unit.

Note: Oracle Fusion Applications contains a reference data set called Enterprise. Define any reference data that affects your entire enterprise in this set.

What reference data objects can be shared across business units?

The following list contains the reference data objects for the Oracle Fusion Applications that can be shared across business units and the method in which the reference data for each is shared.

Application Name	Reference Data Object	Method of Sharing
Trading Community Model	Customer Account Relationship	Assignment to one set only, with common values
Trading Community Model	Customer Account Site	Assignment to one set only, with common values
Trading Community Model	Sales Person	Assignment to one set only, with common values
Opportunity Management	Sales Method Group	Assignment to one set only, with common values
Work Management	Assessment Templates	Assignment to one set only, with common values
Enterprise Contracts	Contract Types	Assignment to one set only, with common values
Sales	Sales Method	Assignment to one set only, with common values
Common Components	Activity Templates	Assignment to one set only, with common values
Payables	Payment Terms	Assignment to multiple sets, no common values allowed
Receivables	Accounting Rules	Assignment to one set only, with common values

Receivables	Aging Buckets	Assignment to one set only, with common values
Receivables	Auto Cash Rules	Assignment to one set only, with common values
Receivables	Collectors	Assignment to one set only, with common values
Receivables	Lockbox	Assignment to one set only, with common values
Receivables	Memo Lines	Assignment to one set only, with common values
Receivables	Payment Term	Assignment to one set only, with common values
Receivables	Remit To Address	Assignment to one set only, with common values
Receivables	Revenue Contingencies	Assignment to one set only, with common values
Receivables	Transaction Source	Assignment to one set only, with common values
Receivables	Transaction Type	Assignment to one set only, with common values
Advanced Collections	Collections Setups	Assignment to one set only, with common values
Advanced Collections	Dunning Plans	Assignment to one set only, with common values
Tax	Tax Classification Codes	Assignment to one set only, with common values
Performance Management	Performance Templates	Assignment to one set only, with common values
Human Resources	Departments	Assignment to one set only, with common values
Human Resources	Jobs	Assignment to one set only, with common values
Human Resources	Locations	Assignment to one set only, with common values
Human Resources	Grades	Assignment to one set only, with common values
Project Billing	Project and Contract Billing	Assignment to multiple sets, common values not allowed
Project Foundation	Project Accounting Definition	Assignment to one set only, no common values allowed
Project Foundation	Project Rates	Assignment to one set only, with common values
Distributed Order Orchestration	Hold Codes	Assignment to one set only, with common values
Distributed Order Orchestration	Orchestration Process	Assignment to one set only, with common values

What reference data objects can be shared across asset books?

The following list contains the reference data objects for Oracle Fusion Assets that can be shared across asset books and the method in which the reference data for each is shared.

Application Name	Reference Data Object	Method of Sharing
Assets	Bonus Rules	Assignment to one set only, no common values allowed
Assets	Depreciation Ceilings	Assignment to one set only, no common values allowed
Assets	Depreciation Methods	Assignment to one set only, with common values
Assets	Asset Descriptions	Assignment to one set only, no common values allowed
Assets	Property Types	Assignment to one set only, with common values
Assets	Prorate Conventions	Assignment to one set only, no common values allowed
Assets	Asset Queue Names	Assignment to one set only, with common values
Assets	Retirement Types	Assignment to one set only, with common values
Assets	Unplanned Types	Assignment to one set only, with common values

What reference data objects can be shared across cost organizations?

The following list contains the reference data objects for Oracle Fusion Cost Management that can be shared across cost organizations and the method in which the reference data for each is shared.

Application Name	Reference Data Object	Method of Sharing
Cost Management	Cost Structure	Assignment to one set only, no common values allowed

What reference data objects can be shared across project units?

The following list contains the reference data objects for Oracle Fusion Project Foundation that can be shared across project units and the method in which the reference data for each is shared.

Application Name	Reference Data Object	Method of Sharing
Project Foundation	Project Definition	Assignment to multiple sets, no common values allowed
Project Foundation	Project Transaction Types	Assignment to multiple sets, no common values allowed

Product Specific Reference Data Sharing: Explained

Some products required special logic for reference data sharing and have implemented their own domain specific ways for sharing data.

Items and supplier sites are two such product specific reference data objects that use product specific mechanisms to share data.

Items

If you share your items across warehouses or manufacturing facilities, you can access them through a common item master. Configure one or multiple item masters for your enterprise, based your enterprise structure. A single item master is recommended because it provides simpler and more efficient maintenance. However, in rare cases, it may be beneficial to keep multiple item masters. For example, if you acquire another enterprise and need to continue to operate your lines of business separately, maintaining a second item master might be the best decision.

Suppliers Sites

You can approve particular suppliers to supply specified commodities and authorize your business units to buy from those suppliers when the need arises. For example, you might be a household cleaning products manufacturer and need dyes, plastics, and perfumes to make your products. You purchase from a central supplier 70% of your perfume supplies with an additional supplier, in reserve, from whom you purchase the remaining 30%. At the same time, each of your business units purchases plastics and dyes from the same supplier, but from different local supplier sites to save transportation costs.

To implement business unit specific supplier sites, Oracle Fusion Procurement supports a method for defining suppliers sites as owned and managed by the business unit responsible for negotiating the supplier terms. Your other business units that have a service provider relationship defined with your procurement business unit, subscribe to the supplier sites using the supplier site assignments feature. In addition, Procurement allows sharing of the following procurement data objects across business units:

- Supplier qualification data, such as approved supplier lists
- Catalog content, such as agreements, smart forms, public shopping lists, and content zones
- Procurement configuration data

Shared Service Centers

Shared Service Center: Points to Consider

Oracle Fusion applications supports shared service centers in two ways. First, with business unit security, which allows your shared service centers personnel to process transactions for other business units called clients. This was the foundation of Multi Org Access Control in the Oracle E-Business Suite.

Second, the service provider model expands on this capability to allow a business unit and its personnel in a shared service center to work on transactions of the client business units. It is possible to view the clients of a service provider business unit, and to view service providers of a client business unit.

Your shared service centers provide services to your client business units that can be part of other legal entities. In such cases, your cross charges and recoveries are in the form of receivables invoices, and not merely allocations within your general ledger, thereby providing internal controls and preventing inappropriate processing.

For example, in traditional local operations, an invoice of one business unit cannot be paid by a payment from another business unit. In contrast, in your shared service center environment, processes allowing one business unit to perform services for others, such as paying an invoice, are allowed and completed with the appropriate intercompany accounting. Shared service centers provide your users with access to the data of different business units and can comply with different local requirements.

Security

The setup of business units provides you with a powerful security construct by creating relationships between the functions your users can perform and the data they can process. This security model is appropriate in a business environment where local business units are solely responsible for managing all aspects of the finance and administration functions.

In Oracle Fusion applications, the business functions your business unit performs are evident in the user interface for setting up business units. To accommodate shared services, use business unit security to expand the relationship between functions and data. A user can have access to many business units. This is the core of your shared service architecture.

For example, you take orders in many business units each representing different registered legal entities. Your orders are segregated by business unit. However, all of these orders are managed from a shared service order desk in an outsourcing environment by your users who have access to multiple business units.

Benefits

In summary, large, medium, and small enterprises benefit from implementing share service centers. Examples of functional areas where shared service centers are generally implemented include procurement, disbursement, collections, order management, and human resources. The advantages of deploying these shared service centers are the following:

- Reduce and consolidate the number of control points and variations in processes, mitigating the risk of error.
- Increase corporate compliance to local and international requirements, providing more efficient reporting.
- Implement standard business practices, ensuring consistency across the entire enterprise and conformity to corporate objectives.
- Establish global processes and accessibility to data, improving managerial reporting and analysis.
- Provide quick and efficient incorporation of new business units, decreasing startup costs.
- Establish the right balance of centralized and decentralized functions, improving decision making.
- Automate self-service processes, reducing administrative costs.
- Permit business units to concentrate on their core competencies, improving overall corporate profits.

Service Provider Model: Explained

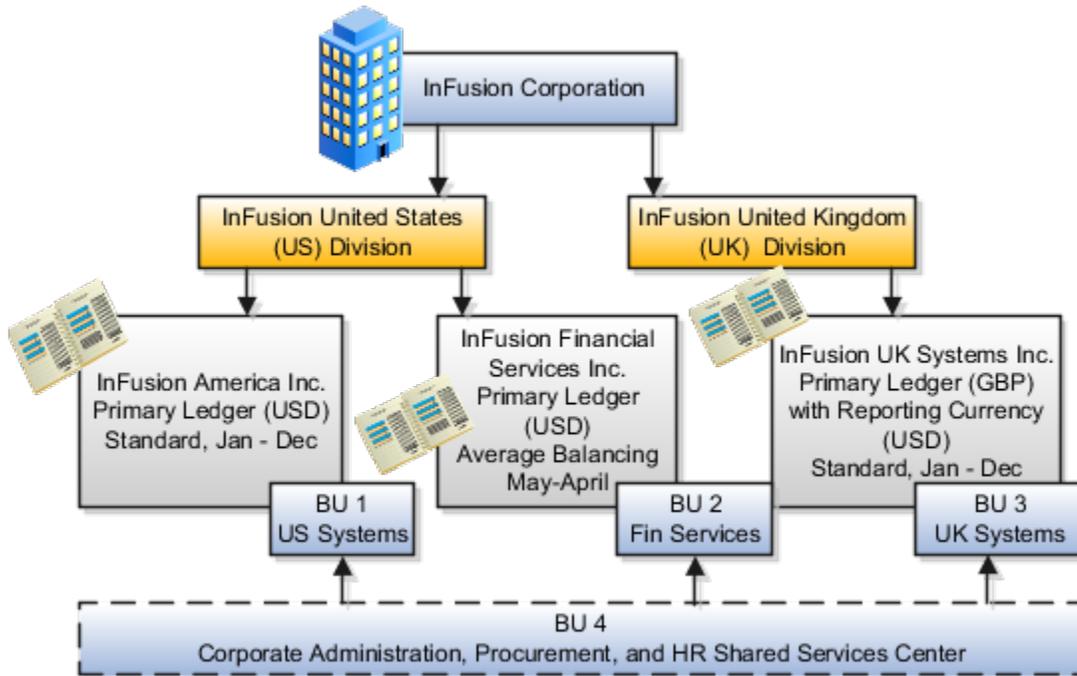
In Oracle Fusion applications, the service provider model defines relationships between business units for a specific business function, identifying one business in the relationship as a service provider of the business function, and the other business unit as its client.

Procurement Example

The Oracle Fusion Procurement product family has taken advantage of the service provide model by defining outsourcing of the procurement business function. Define your business units with requisitioning and payables invoicing business functions as clients of your business unit with the procurement business function. Your business unit responsible for the procurement business function will take care of supplier negotiations, supplier site maintenance, and purchase order processing on behalf of your client business units. Subscribe your client

business units to the supplier sites maintained by the service providers, using a new procurement feature for supplier site assignment.

In the InFusion example below, business unit four (BU4) serves as a service provider to the other three business units (BU1, BU2, and BU3.) BU4 provides the corporate administration, procurement, and human resources (HR) business functions, thus providing cost savings and other benefits to the entire InFusion enterprise.



Glossary

assignment

A set of information, including job, position, pay, compensation, managers, working hours, and work location, that defines a worker's or nonworker's role in a legal employer.

balancing segment

A chart of accounts segment used to automatically balance all journal entries for each value of this segment.

business function

A business process, or an activity that can be performed by people working within a business unit and describes how a business unit is used.

business unit

A unit of an enterprise that performs one or many business functions that can be rolled up in a management hierarchy.

chart of accounts

The account structure your organization uses to record transactions and maintain account balances.

cost book combination

Decides which cost book a cost organization uses for different financial reporting purposes.

cost center

A unit of activity or group of employees used to assign costs for accounting purposes.

cost organization

A grouping of inventory organizations that indicates legal and financial ownership of inventory, and which establishes common costing and accounting policies.

cost profile

Defines the cost accounting policies for items, such as the cost method and valuation structure.

department

A division of a business enterprise dealing with a particular area of activity.

determinant

A value that determines which reference data set will be used in a specific business context.

division

A business-oriented subdivision within an enterprise. Each division is organized to deliver products and services or address different markets.

document sequence

A unique number that is automatically or manually assigned to a created and saved document.

employment terms

A set of information about a nonworker's or employee's job, position, pay, compensation, working hours, and work location that all assignments associated with the employment terms inherit.

flexfield

Grouping of extensible data fields called segments, where each segment is an attribute added to an entity for capturing additional information.

inventory organization

An organization that tracks inventory transactions and balances, and can manufacture or distribute products.

item master

A collection of data that describes items and their attributes recorded in a database file.

item organization

Item definition where inventory balances are not stored and movement of inventory is not tracked in the applications. Item attributes that carry financial and accounting information are hidden.

item validation organization

An inventory organization whose primary or secondary unit of measure is used as the costing unit of measure for the item in the cost organization to which that inventory organization belongs. The item master organization can also be designated as the item validation organization.

key flexfield

Configurable key consisting of multiple parts or segments, each of which may be meaningful individually or in combination with the others. Key flexfields are commonly implemented to represent part numbers and account numbers.

legal authority

A government or legal body that is charged with powers such as make laws, levy and collect fees and taxes, and remit financial appropriations for a given jurisdiction.

legal employer

A legal entity that employs people.

legal entity

An entity is identified and given rights and responsibilities under commercial law, through the registration with the country's appropriate authority.

legal reporting unit

The lowest level component of a legal structure that requires registrations. Used to group workers for the purpose of tax and social insurance reporting or represent a part of your enterprise with a specific statutory or tax reporting obligation.

legislative data group

A means of partitioning payroll and related data. At least one legislative data group is required for each country where the enterprise operates. Each legislative data group is associated with one or more payroll statutory units.

line of business

Set of one or more highly related products which service a particular customer transaction or business need. Refers to an internal corporate business unit.

manufacturing facilities

Employed in the making of goods for sale such as a factory or plant.

natural account

Categorizes account segment values by account type, asset, liability, expense, revenue, or equity, and sets posting, budgeting, and other options.

payroll statutory unit

A legal entity registered to report payroll tax and social insurance. A legal employer can also be a payroll statutory unit, but a payroll statutory unit can represent multiple legal employers.

primary ledger

Main record-keeping ledger.

project and task owning organization

An organization that can own projects and tasks for the purpose of reporting, security, and accounting.

project expenditure organization

An organization that can incur expenditures and hold financial plans for projects.

project type

Controls basic project configuration options, such as burdening, billing, and capitalization options, and class categories, that are inherited by each project associated with the project type.

project unit

An operational subset of an enterprise, such as a line of business, that conducts business operations using projects, and needs to enforce consistent project planning, management, analysis, and reporting.

reference data

Data in application tables that is not transactional and not high-volume such as sales methods, transaction types, or payment terms, and can be shared and used across organizational boundaries.

reference data object

Set-enabled entity that has reference data that can be shared across organizations. A reference data set contains the reference data for a reference data object, such as transaction type or work type. Use reference data sharing to decide what reference data applies to all organizations, what reference data is shared among certain organizations, and what reference data is organization-specific.

reference data set

Contains reference data that can be shared across a number of business units or other determinant types. A set supports common administration of that reference data.

reference data sharing

Facilitates the reuse of common transactional data entities within the parts of a business flow or across organizations.

registration

The record of a party's identity related details with the appropriate government or legal authorities for the purpose of claiming and ensuring legal and or commercial rights and responsibilities.

service provider model

A business unit that provides specific business functions for another business unit.

set

Reference data that is organized into groups appropriate to organizational entities, to enable reference data sharing.

storage facilities

Commercial building for storage of goods such as a warehouse.

tree

Information or data organized for display into a hierarchy with one or more root nodes connected to branches of nodes. Each node corresponds to data from one or more data sources. A tree must have a structure.

value set

A set of valid values against which values entered by an end user are validated. The set may be tree structured (hierarchical).

work relationship

An association between a person and a legal employer, where the worker type determines whether the relationship is a nonworker, contingent worker, or employee work relationship.