

HOW TO MIGRATE OPENING BALANCES INTO ERP LN

To start off with the definition of Opening Balance in laymen's terms, it denotes the position of a business in terms of receivables and payables on a particular date. However in the ERP LN perspective the connotation is all encompassing. In this article we shall try to understand the various prerequisites, process and the methodology behind migrating opening balances from a legacy system to ERP LN.

Mapping business to ERP LN

Any business organisation exists on the premise of 'Perpetual Succession', which means, other than in case of unforeseen circumstances, the business goes on, irrespective of profits or losses incurred. Since it is already established that a business must sustain, the next thing on the agenda is to map the business to ERP LN which forms the main objective behind setting up an ERP.

When a business is mapped to ERP LN, there is a data migration which happens and this is where phrases like 'Cut-off date' and 'Go-live Date' come into picture. Since there is a transition happening in terms of migrating the process to ERP LN, all the activities in the legacy system need to be stopped which is the 'Cut-off Date'. While the new system should be up and ready to go, which is the 'Go-live Date', care should also be taken to ensure that there is a comfortable time lag between the 'Cut-off Date' and 'Go-live Date'.

The whole process of bringing shape to opening balance can be structured in three systematic steps:

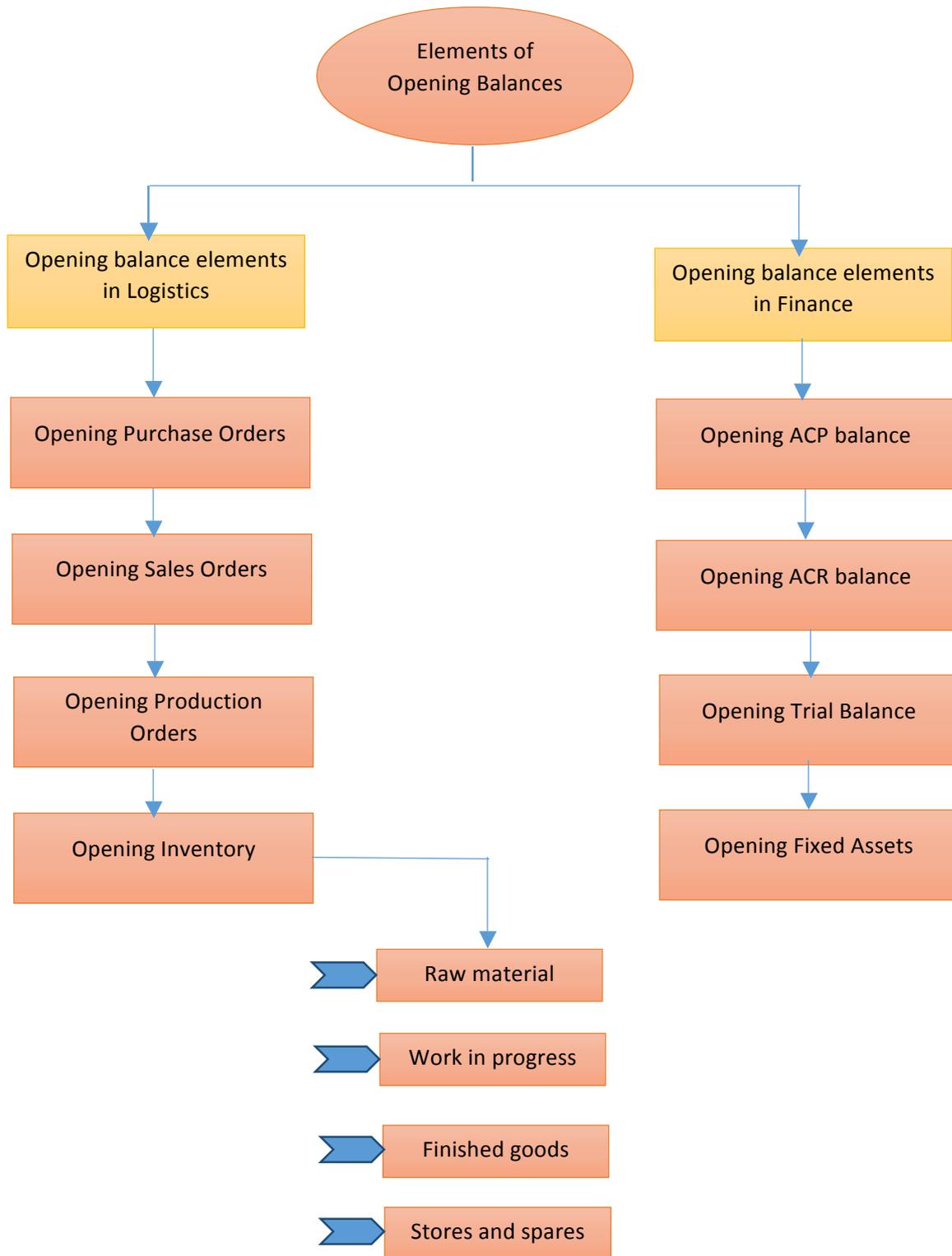
- Cut-off- It is the last day of a certain month on which the old system becomes defunct and any access to it is stopped, in terms of transaction entry or posting. However it is advisable to provide read-only access to the old system so as to enabling retrieving of reports if any, to be fed onto the new system.

- Pre Go-Live- This is the date before actual go –live date wherein you ensure that all the activities are in place and the processes to be mapped to the new system are completed. It is just a checkpoint for all the parties involved, to ascertain whether they are prepared in all aspects for the take-off. It is advisable to conduct pre-live audit, which makes sure that the things are appropriate.
- Go-Live- There should be a sufficient time gap between the cut-off date and go-live date. The general practise, which can be best explained through a simple example is, the cut-off date is decided as 31st October so the g –live would be fixed on 7th November. This would give time to retrieve data from the old system, convert them into LN compatible format, prepare the excel sheets (data conversion) and use different methods for uploading the same into LN. The methods could vary from a much used exchange scheme, scripts, manual transactions or various other methods. All this depends on the size of the transactions and how critical the business processes are, whether the company can afford to take a cut-off and go live after a small time gap.

Here one important thing to note, is that an hourly activity schedule needs to be maintained from the cut -off date until the date of going live, in terms of what data needs to be pulled from the legacy system. This schedule needs to be documented in sequential steps as certain processes are dependent on other activities. This is a sure shot way of successfully migrating the business to the new system.

Elements of Opening Balance:

The term opening balance, brings with it a diaspora of elements which is like a jigsaw puzzle coming together, with that final piece to make a single picture yet with each piece having its own set of importance and credibility. But for easy understanding it can be split into two namely the logistics part and the finance part each of which, come individually to merge together into a single process:



Migrating of business process to a new system is a herculean task and appropriate care must be taken at all stages to ensure a smooth transition.

This could be in the form of:

- Preparing an hourly activity schedule.
- Taking a sign-off from customer on the opening balances to be loaded to new ERP.
- Providing read-only access to the old system on the cut-off, so as to retrieve certain reports and feed it into the new system.

With the right activities in place, the mammoth task of mapping and migration of opening balances becomes much simpler, effective and flawless, thereby making the organisation good to go with new ERP LN.

Methods of uploading opening balances

Depending upon the kind of data and its size, the following methods can be resorted to:

1. Manual
2. Exchange Scheme (ERP LN standard module)
3. Program Scripts (Customized Programs)

The above methods are just a way of transferring the data from the legacy system to the new system. The above methodology will take shape depending on the size of the business, that which will be mutually agreed upon by the

organisation and the consultant keeping various other factors like time, process and demands of the business in mind.

Here we shall look into a detailed explanation of individual elements so as to understand the whole picture of opening balances. We shall start off with the logistics elements to begin with:

Opening Logistics Balances:

1. Open Purchase Orders: In simple parlance open purchase orders are those which have been placed on hold and yet to be received. But there can be two scenarios associated with this:

- No supply against PO
- Partial supply against PO. It can be best explained through the below example-

Ordered Quantity-100 units

Received Quantity-20 units

Pending/Backorder Quantity- 80 units -This would be shown as the open purchase order)

In the first case scenario, since none of the items have been received against the PO there is no hassle associated with it and it is very easy to get reports for such orders. Whereas, in the latter, it is mandatory to short close the system abruptly before the pending quantity is received. This is also applicable to sales orders and production orders. The functionality of short closing is that, nothing should be left incomplete and all the orders should be closed so that the system will let us go on to the next step.

Here, the backorder quantity is set to zero so that the system lets you close the purchase order. Therefore, the opening quantity to be carried onto the

new system would be 80 units as per the example given above, which would be the Open Purchase Order.

After all this, the next challenge which pops up is how to create new purchase order in the system. Therefore ample care should be taken to input the order into the system. One should never club one purchase order for all the pending supplies, thus the old order should be replicated as such in the new system. Depending upon the number of pending orders we can decide whether a manual input is easier or exchange scheme is apt.

Another thing to be noted is that from the finance module all such purchase orders should be matched and approved. Also the server should be backdated appropriately because, there would be transactions happening nevertheless.

2. Open Sales Orders: It has the same meaning as above, but in this case there is certain pending stock which is partially pending with us for delivery to customers that is, the orders which have not been shipped to the customers on the cut-off date. As in the case of open purchase orders explained above, the same 2 scenarios arise in the case of open sales orders as well with a slight variation:

- No sales orders shipped (hence no open orders created in the old system)
- Order date vs. delivery date. The order has been placed on a particular date but the delivery cannot be done immediately due to the process involved in manufacturing the item. The sales order helps in production planning and subsequently the procurement planning, hence it is mandatory to enter them irrespective of whether it has been shipped or not. It can be explained through the below example-

Ordered Quantity-100 units

Shipped Quantity-20 units

Pending/Backorder Quantity- 80 units -----This will be shown as the opening sales order in the new system.

The logic and treatment is the same as with the open purchase orders, only in this case an important pre-requisite is that the goods which have been shipped must be invoiced. This helps in easy tracking and makes the migration process much simpler.

3. Open Production Orders: Keeping the concept of Perpetual Succession in mind, in any business the production must go on irrespective of migration. It is not possible to halt production under the excuse of go-live. There are certain production orders which cannot be completed as the manufacturing time may vary from days to weeks depending on the product life cycle. So these production orders would be kept as open in the new system. Here an important pre-requisite is to adopt short closing. An important thing to be considered is that, open productions orders, have a direct link with open work in progress inventory.

4. Open Inventory: An open inventory could mean anything in terms of:
 - i) Raw Material (materials which you have received but are still lying in the warehouse in the raw form)
 - ii) WIP-Work in Progress (issued for production and the production is still in progress)
 - iii) Finished Goods (goods which are in the completed stage but yet to be shipped to the customer)
 - iv) Stores and Spares (this is nothing but a form of raw material).

It is imperative that all the components of the inventory are brought into the system vis-a-vis the different types of items, raw materials, stores etc.

not as a summary but individually i.e. based on the item group. The same logic applies in case of payables and receivables as elaborated ahead. It can be said that, the 3 elements crucial to getting opening inventory into the system are adjustment order, reason code and item group.

In case of open inventory it is mandatory that an adjustment order is created. Inventories in the system, are brought together through adjustment order be it raw material, finished goods or spares. When the physical inventory is not matching with the system inventory, an adjustment order is passed to adjust the system inventory.

Also, a **reason code** should be tagged to the adjustment order, as it is a mandatory field and the organisation would like to know why the order is being adjusted. It may be due to shortage of goods, poor quality to name a few. This will have a direct impact on profit and loss. Hence adjustment order and reason code are critical. One way to distinguish the reason code used for opening balances is to name it as OPB in the system.

Opening Financial Balances:

Now coming to the financial elements, we shall understand their dynamics as outlined below:

1. Opening Trial balance: This is purely a finance term and denotes the position of a company vis a vis its assets and liabilities in financial terms. It constitutes of open assets and open liabilities which have to be entered in the system as journals of category Opening Balance.

There are three elements which make up the trial balance namely open payables, open receivables and open fixed assets and they come together in all their entirety to constitute this mammoth element. We will now look into understanding the three elements as follows:

2. Opening ACP balances Vs Trial Balance: The Open Payables report is a listing of outstanding invoices. The report may be sorted by supplier and invoice number or by invoice due date. It is nothing but sum of payables. Each open invoice must be brought into the system. It can be explained through the below example:

Sum of Payables- Rs 100000

Supplier A- 20000 (may contain one invoice or multiple invoices)

Supplier B- 10000 (may contain one invoice or multiple invoices)

Supplier C- 50000 (may contain one invoice or multiple invoices)

Supplier D- 15000 (may contain one invoice or multiple invoices)

Supplier E- 5000 (may contain one invoice or multiple invoices)

Each suppliers pending invoice (individual) must be brought into the system. For this the transaction processing must happen at the bottom most level which is the purchase transaction. Hence, each invoice should be brought into the system in the form of a cost invoice.

3. Opening ACR balances Vs Trial Balance: This works in the other direction as opposed to ACP balances. It is nothing but sum of receivables outstanding from the customers. The same example can be used to explain this scenario only in this case we have customers instead of suppliers.

Sum of Receivables- Rs 100000

Customer A- 20000 (may contain one invoice or multiple invoices)

Customer B- 10000 (may contain one invoice or multiple invoices)

Customer C- 50000 (may contain one invoice or multiple invoices)

Customer D- 15000 (may contain one invoice or multiple invoices)

Customer E- 5000 (may contain one invoice or multiple invoices)

The same logic applies here as well as in case of payables.

4. Opening Fixed Assets Vs Trial Balance:

In Trial Balance, the Fixed Assets are entered as a lump sum i.e., Gross Assets (-) Accumulated Depreciation. Whereas, the Fixed Assets module contains individual assets and accounting of the same is generally mapped based on the Fixed Asset Group. It means, the integration mapping & posting is based on the Fixed Asset Group.

Hence, care should be taken in mapping Gross Fixed Assets and corresponding Accumulated Depreciation to the appropriate accounts. Gross Fixed Assets reflect Debit balance whereas, Accumulated Depreciation reflects Credit balance in Trial Balance.