



## Intercompany Allocations Blueprint

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**What is this document |** Accounting Seed is a flexible accounting platform where you can add, build and layer your own customizations on top of the platform. Accounting Seed Blueprints provide an example of a specific use case that can serve as a template to implement a feature for your organization, but also can be tweaked or modified in any way you need to achieve your exact requirements. Blueprints serve as a design template or starting spot for your own feature.



## What is the feature?

Intercompany allocations are used to allocate costs incurred by a Parent company to Subsidiary companies.

Intercompany allocations differ from department allocations which spread overhead costs to company departments or project allocations which allocate overhead costs incurred specifically to a project. Accounting Seed provides separate blueprints for these other types of allocations.

## When is this feature set used?

This feature set is used in a multi-entity model where costs incurred by the Parent are allocated amongst its related entities. Where some companies might formally bill related entities for costs incurred, the intent for this tool is to allocate expenses for management reporting purposes which would be eliminated in consolidation entries and excluded for statutory reporting.

## What terms or definitions do I need to understand?

<b>Parent/Subsidiary</b>	<p>A subsidiary company is a company this is owned or controlled by the parent company. The parent company may have many subsidiary companies. While the parent may have control and influence over its subsidiary companies, each subsidiary company must remain legally independent.</p>
<b>Ledger</b>	<p>Accounting Seed custom object used to track multiple entities within the same Salesforce organization.</p>

## Can you give me an overview of how this works?

Customers pre-determine the percentage of costs incurred by the parent entity to allocate to each of its subsidiaries, and the GL Accounts from which these costs will be allocated from parent to subsidiary. When all source entries are created and posted for a given period, the customer will choose to allocate costs for that period. A background process will run to allocate the percentage of costs from the parent to its subsidiaries.

When the costs are allocated, one journal entry will be created in the Parent and each Subsidiary as follows:

Parent:

- Debit - Intercompany Allocations GL Account
- Credit - Each expense GL Account to be allocated to subsidiaries

Subsidiary:

- Debit - Each expense GL Account to be allocated from the Parent
- Credit - Intercompany Allocations GL Account

The Customer will pre-define the following:

- Parent Entity
- Subsidiary Entities across which to allocate costs
- Percentage of costs to allocate from the Parent to each Subsidiary
- Which GL Accounts to allocate

**Note:** when you allocate to GL Accounts in the Subsidiary entity, you could also consider allocating across GL Accounting Variables. For this Blueprint we'll just be allocating to GL Accounts in the Subsidiary entity for a more simple example.

For example, let's say you have 3 entities: US, UK and AU, and the US entity is the Parent. As costs are incurred in the US entity they are to be allocated to UK and AU as follows:

Subsidiary Entity	Percent
UK	40.0%
AU	30.0%

Amounts posted to these GL Accounts in the US entity will be allocated to the UK and AU entities:

7000-Facilities Expense  
 7010-Insurance Expense  
 7050-Telecommunications

For this example, the following costs are incurred in December 2019 and posted to the following GL Accounts:

**US (Parent):**

GL Account	Amount
7000-Facilities Expense	\$20,000
7010-Insurance Expense	\$10,000
7050-Telecommunications	\$7,500

The costs will be allocated to the Subsidiary entities as follows:

**UK (Subsidiary):**

GL Account	Amount
7000-Facilities Expense	$20,000 * 40\% = 8,000$
7010-Insurance Expense	$10,000 * 40\% = 4,000$
7050-Telecommunications	$7,500 * 40\% = 3,000$
<b>Total</b>	<b>15,000</b>

**AU (Subsidiary):**

GL Account	Amount
7000-Facilities Expense	20,000 * 30% = 6,000
7010-Insurance Expense	10,000 * 30% = 3,000
7050-Telecommunications	7,500 * 30% = 2,250
<b>Total</b>	<b>11,250</b>

When costs are allocated from US to UK and AU, journal entries will be created in all 3 entities. Below are examples of the Journal Entries that will be generated for the US, UK and AU:

**US (Parent):**

GL Account	Debit	Credit
1250-Intercompany Allocations	37,500	
7000-Facilities Expense		20,000
7010-Insurance Expense		10,000
7050-Telecommunications		7,500

**UK (Subsidiary):**

GL Account	Debit	Credit
1250-Intercompany Allocations		15,000
7000-Facilities Expense	8,000	
7010-Insurance Expense	4,000	
7050-Telecommunications	3,000	

### AU (Subsidiary):

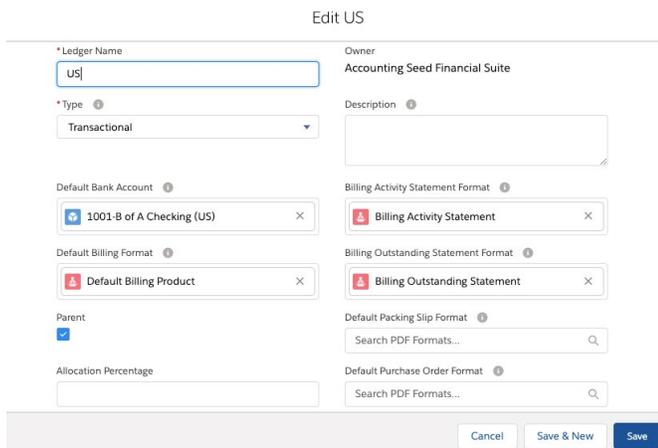
GL Account	Debit	Credit
1250-Intercompany Allocations		11,250
7000-Facilities Expense	6,000	
7010-Insurance Expense	3,000	
7050-Telecommunications	2,250	

### What object model changes are required?

Object model changes are additional data objects or fields that you would add to Accounting Seed to achieve the customization. We suggest the following changes:

Add the following custom fields to the Ledger object:

1. Create a custom Checkbox to identify the Parent.
2. Create a custom Percent field to identify the percentage of costs to be allocated to the Subsidiary.



3. Create a Validation rule on Allocation Percentage – if Parent checkbox is checked, the Allocation Percentage field must remain blank.  
Error Message: “Allocation Percentage is only required on Subsidiary Ledgers”
4. Create a Validation rule on Parent checkbox – do not allow Parent checkbox to be checked in more than 1 Ledger.  
Error Message: “You can only check the Parent checkbox on one Ledger”

*Note, this is the architecture for a single rollup. You may need to consider alternate architecture if you have multi-level consolidations.*

### GL Account:

1. Create a custom field to identify if costs posted to the GL Account are to be allocated to Subsidiaries.

GL Account  
7000-Facilities Expense

<b>Type</b> Expense	<b>Sub Type 1</b> Facilities	<b>Sub Type 2</b> Rent	<b>Bank</b> <input type="checkbox"/>
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**Related List Quick Links** +

[GL Account History \(1\)](#)

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<b>GL Account Name</b> 7000-Facilities Expense	<b>Type</b> Expense
<b>Bank</b> <input type="checkbox"/>	<b>Sub Type 1</b> Facilities
<b>Currency</b> USD - U.S. Dollar	<b>Sub Type 2</b> Rent
<b>Allocate</b> <input checked="" type="checkbox"/>	

> Expense Report Information

2. Create a Validation rule – do not allow the Allocate checkbox to be checked if the GL Account “Type” is not equal to ‘Expense’.  
Error Message: “Only GL Accounts where Type is equal to Expense are allowed to be allocated”

Create a new Custom Metadata Type for Intercompany Allocations settings.

SETUP  
Custom Metadata Types

**Custom Metadata Type**  
Intercompany Allocations

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[Standard Fields \(6\)](#) | [Custom Fields \(1\)](#) | [Validation Rules \(0\)](#) | [Page Layouts \(1\)](#)

**Custom Metadata Type Detail** 
[Edit](#) | [Delete](#) | [Manage Intercompany Allocations](#)

<b>Singular Label</b>	Intercompany Allocations	<b>Description</b>	To indicate settings for allocating costs between parent and subsidiaries.
<b>Plural Label</b>	Intercompany Allocations	<b>Visibility</b>	Public
<b>Object Name</b>	Intercompany_Allocations	<b>Protection Level</b>	
<b>API Name</b>	Intercompany_Allocations__mdt	<b>Record Size</b>	161
<b>Created By</b>	Mary Balmer, 12/10/2019 11:44 AM	<b>Modified By</b>	Mary Balmer, 12/10/2019 11:59 AM

Create a custom field on the metadata type to indicate the GL Account to use for intercompany allocations.

SETUP  
Custom Metadata Types

**Intercompany Allocations Custom Field**  
Intercompany Allocations GL Account

[Validation Rules \(0\)](#)

**Custom Field Definition Detail** 
[Edit](#) | [Where is this used?](#)

<b>Field Information</b>	
<b>Field Label</b>	Intercompany Allocations GL Account
<b>Field Name</b>	Intercompany_Allocations_GL_Account
<b>API Name</b>	Intercompany_Allocations_GL_Account__c
<b>Description</b>	Used as the intercompany clearing account when allocating costs from Parent to each Subsidiary.
<b>Help Text</b>	Enter the Salesforce ID of the GL Account to be used for intercompany allocations.
<b>Data Owner</b>	
<b>Field Usage</b>	
<b>Data Sensitivity Level</b>	
<b>Compliance Categorization</b>	
<b>Created By</b>	Mary Balmer, 12/10/2019 11:49 AM
<b>Modified By</b>	Mary Balmer, 12/10/2019 11:49 AM

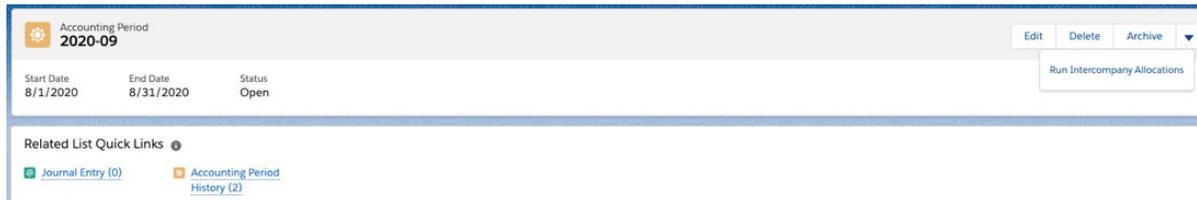
**General Options**

<b>Required</b>	<input type="checkbox"/>
<b>Unique</b>	<input type="checkbox"/>
<b>Case Sensitive</b>	<input type="checkbox"/>
<b>Field Manageability</b>	Upgradable
<b>Default Value</b>	

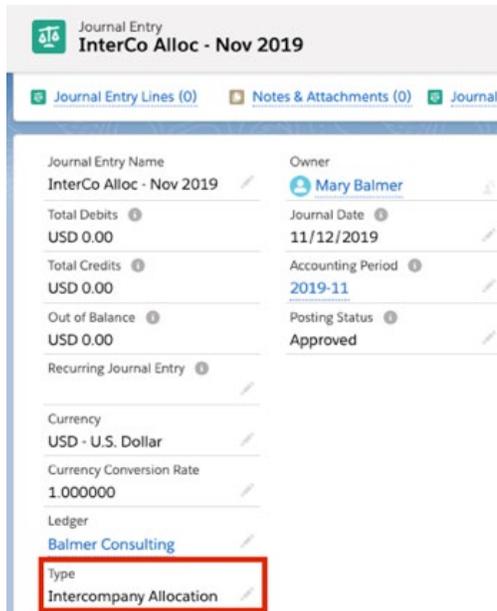
**Text Options**

<b>Length</b>	20
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On the Accounting Period create a button called “Run Intercompany Allocations”:



On the Journal Entry Object add a Picklist called “Type”. Add Intercompany Allocation as a picklist value:



## What code is needed for this process?

Accounting Seed recommends an asynchronous script is launched when the user clicks the Run Intercompany Allocations button.

After the job is completed the results of the Allocations job will be sent in an email to the user displaying the following information:

- Job ID
- Submitted by
- Start Time
- End Time
- # Journal Entries Created
- # of Journal Entries Posted

The logic and procedures for the asynchronous script are outlined below:

**Step 1 – Select Accounting Period & Run Allocations.** When the user selects Run Intercompany Allocations button from the Accounting Period record, the Allocations process will be initiated.

**Step 2 – Delete existing Allocation Journal Entries.** The code will look in all Ledgers to see if one or more journal entries already exist for that selected period where Type = Intercompany Allocation. If TRUE, unpost and delete those Journal Entries.

**Step 3 – Set the Parent.** Query the Ledger records to determine which Ledger is the Parent. There should be only one Ledger record where the Parent checkbox is checked; the validation rules will ensure this is the case.

**Step 4 – Set the Allocation Percent.** Query the Ledger records to determine what percent of costs should be allocated from the Parent to each Subsidiary. There is a field on each of the Subsidiary Ledgers for “Allocation Percentage”. This value in this field will indicate the percentage to allocate to this subsidiary.

**Step 5 – Set the GL Accounts to Allocate.** Query the GL Account records to determine which GL Accounts to include in the allocation process. If the GL Account should be included in the Allocate process, the “Allocate” checkbox in the GL Account record will be checked.

**Step 6 – Allocate.** Calculate the amount that should be posted to each GL Account in each subsidiary ledger. Loop through records to calculate this amount as follows:

For each Subsidiary Ledger where Parent checkbox = FALSE AND Allocation Percentage > 0,  
 Loop through GL Account where “Allocate” = TRUE,  
 Actual MTD (from Financial Cubes on Parent ledger) \* Allocation Percentage (from Subsidiary ledger)

The result of multiplying Actual MTD by Allocation Percentage will give you the amount to allocate for each GL Account to each Subsidiary for the selected Accounting Period.

*Note, you could extend this by multiplying the result above by GL Accounting Variable (GLAV) percentages set in a custom table if you're required to allocate across GLAVs, or you could allocate to GLAVs based on Parent's allocation across GLAVs.*

**Step 7 – Create Allocation Journal Entries.**

7a – Create the Allocation Journal Entry in the parent ledger as follows:

Journal Entry Header:

Field Name	Value
Journal Entry Name	Allocations from <Ledger Name> - <Accounting Period>
Journal Date	TODAY's date
Accounting Period	The Accounting Period selected for the Allocations process
Posting Status	Approved

Journal Entry Lines:

GL Account	Debit	Credit
Intercompany Allocations GL Account	Sum of amounts calculated in 6	
GL Account 1		Amount calculated in 6
GL Account 2		Amount calculated in 6
GL Account 3		Amount calculated in 6
Etc.		

After creating the Journal Entry and Journal Entry Lines in the Parent Ledger, save it and Post.

7b – Create the Allocation Journal Entry in each of the subsidiary ledgers as follows:

Journal Entry Header:

Field Name	Value
Journal Entry Name	Allocations from <Ledger Name> - <Accounting Period>
Journal Date	TODAY's date
Accounting Period	The Accounting Period selected for the Allocations process
Posting Status	Approved
Currency	Currency of the Parent
Currency Conversion Rate	Applicable rate from the exchange rate tables, based on the last day in the selected Accounting Period.

Journal Entry Lines:

GL Account	Debit	Credit
Intercompany Allocations GL Account		Sum of amounts calculated in 6
GL Account 1	Amount calculated in 6	
GL Account 2	Amount calculated in 6	
GL Account 3	Amount calculated in 6	
Etc.		

After creating the Journal Entry and Journal Entry Lines in each Subsidiary Ledger, save it and Post.

## What does a successful outcome look like?

With the successful run of the Allocations script a journal entry will be created in the Parent ledger to credit the GL Accounts for the expenses allocated to each Subsidiary and debit the intercompany allocations GL Account. In each Subsidiary, a journal entry will be created to debit each GL Account with its portion of the expenses and credit the intercompany allocations GL Account.

## What process or policy changes should I consider with implementing this solution?

1. Make sure all source transactions are posted for the period before running the Allocations process.
2. Run a report of all GL Accounts where Allocate = TRUE to review the period expenses before running the Allocations process.
3. If subsidiaries have a base currency different from the Parent, make sure the Exchange Rate table includes the appropriate exchange rate for the last day of the selected Accounting Period before running the Allocations process.

## ABOUT ACCOUNTING SEED

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410.995.8406  
[accountingseed.com](http://accountingseed.com)