

Encumbrance Analysis Guide

All encumbrance balances are found in Oracle Financials. Oracle has four encumbrance types: Obligation, Commitment, Invoice, and Manual and they originate in the Oracle module noted below:

ENCUMBRANCE TYPE	ORACLE MODULE
Obligation	Purchasing (POs, Contracts, Releases)
Commitment	Purchasing (Requisitions)
Invoice	Accounts Payable
Manual	General Ledger

Depending on the Oracle module you are in, the encumbrance type name may have a different meaning. For example, in the Projects and Grants module, Commitments include Obligations, Commitments, and Invoice encumbrances, whereas, in the General Ledger, it only includes Commitments.

In analyzing your encumbrances, it is also important to understand that in Oracle, encumbrances have a life. This means that as a transaction goes through the Procure-to-Pay process, the transaction begins as a commitment when a requisition is entered and approved. Once the buyer creates a Purchase Order from the requisition, the encumbrance balance “moves” from a commitment type to an obligation. Then, when the vendor sends an invoice for payment, the invoice is entered and approved and the obligation type is converted to an invoice encumbrance.

Typically on the same day when the invoice is approved by Central Accounts Payable, the payment process is run and the invoice encumbrance is converted to an actual expenditure. This is considered the complete life of an encumbrance in Oracle.

Finally, it is important to remember that Blanket Purchase Agreements (BPAs) and Contract Purchase Agreements (CPAs) are not encumbered. However, when a Release is entered against a BPA it will create an encumbrance type of Obligation. Keep this in mind especially during the year end process.

An understanding of the above will better help you understand the reports and information in Oracle when analyzing your department’s encumbrances.