SAP S/4HANA Financial Accounting Configuration

Learn Configuration and Development on an S/4 System

Second Edition

Andrew Okungbowa

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Apress®

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This book is dedicated to God Almighty who made it possible for me to complete this book despite all odds.

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About the Author

Andrew Okungbowa is an accountant and a business advisor with 20+ years of experience solving complex business issues. He is an acclaimed author of several books in accounting and finance. He also co-founded Spoxio App, a sports app designed for sports professionals, sports enthusiasts, and fans to network on a mobile app.

Andrew is a qualified accountant. He holds a combined bachelor's degree in accounting and IT, a master's degree in Investment and Finance. He has over 15 years of experience in SAP FI/CO consulting and over 20 years of accounting and finance experience in a number of FTSE 100/250 companies in the UK and abroad.

Andrew has sat on the board of several companies in the UK, such as Spoxio Ltd, Changing Lives Housing Trust, and Twenty-Fifth Avenue Ltd.

About the Technical Reviewer

Dr. Ravi Surya Subrahmanyam has a Doctorate in Finance. He has been working as an Architect on various SAP S/4HANA Conversion & SAP S/4HANA Upgrade projects in India and the United States. He has been a Visiting Instructor for SAP S/4HANA for SAP Education, SAP India, and SAP Indonesia. He has been a speaker, blogger, and an author. He has conducted the SAP TDI program at the *University of Indonesia* on behalf of SAP Education -SAP Indonesia. He has been a technical and financial writer and his articles have been published in National and International journals.

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Introduction

What is SAP?

SAP (Systems, Applications, and Products in Data Processing) is the leading ERP (Enterprise Resource Planning) business application software on the market today and provides a unified platform that allows business processes integration. SAP was developed by SAP AG, a German software company founded in 1972 by five ex-IBM employees. SAP is headquartered in Walldorf, Baden-Württemberg, Germany, with regional offices around the world.

The SAP system is used by major Fortune 500 companies worldwide as a preferred business solution for processing their operations and for generating reports real-time, which aids all aspects of management levels in decision making and enables them to manage their business processes effectively and efficiently.

What is SAP HANA?

SAP HANA (High-performance Analytic Appliance) is a multi-model database that stores data in its memory instead of keeping it on a disk. The column-oriented in-memory database design allows you to run advanced analytics alongside high-speed transactions – in a single system. Why is this so important? Because it lets companies process massive amounts of data with near-zero latency, query data in an instant, and become truly data-driven. By storing data in column-based tables in the main memory and bringing online analytical processing (OLAP) and online transactional processing (OLTP) together, SAP HANA is unique – and significantly faster than other database management systems (DBMS) on the market today.

Launched in 2010, SAP HANA is a modern and mature solution used by tens of thousands of customers around the world. But SAP HANA is much more than a database. In addition to acting as a database server, storing and retrieving data requested by applications, SAP HANA offers advanced search, analytics, and data integration capabilities for all types of data – structured and unstructured. It also functions as an

application server and helps companies build smart, insight-driven applications based on real-time data, in-memory computing, and machine learning technology. These capabilities are available both in the cloud and on premise.

By combining multiple data management capabilities – and making all types of data instantly available from a single system – SAP HANA simplifies IT, helps businesses innovate, and knocks down barriers to digital transformation (Source SAP).

What is SAP FI?

FICO is an acronym for Financial (FI). This is a core module in SAP to help organizations capture financial business transactions, maintain efficient financial records, and generate financial reports for both external and internal reports for efficient decision making and strategic planning.

Financial (FI)

FI Module is a business process designed specifically for organizations to maintain their financial records efficiently on a daily basis, for management to be able to ascertain their financial position, and to generate financial statutory reports for external purposes to meet the needs of various stakeholders real time.

The FI module consists of other sub-modules, which include General Ledger (G/L), Accounts Receivable (AR), Accounts Payable (AP), Bank Accounting, Asset Accounting, Special Purpose Ledger, Travel Management, etc.

FI is integrated with other modules like Controlling (CO), Asset Accounting (FI-AA), Sale and Distribution (SD), and Material management (MM). Postings made in these modules with financial implication are posted real time to FI.

Easy Access

The Easy Access menu is a user-specific point of entry into the SAP system. It is the first screen that comes up when you log on to SAP. It is designed as a tree structure containing a list of several key items, which allow you to navigate the system and perform tasks and business processes. For example, you can perform transactions, generate reports, and access web addresses (where you can access documents from a remote Internet server).

IMG

The IMG is a generic tool that you can use to customize business processes and requirements to meet specific needs of an organization. You are presented with three implementation variants in SAP:

- SAP Reference IMG. A standard structured hierarchical tool in the R/3 system (real-time three-tier architecture) that contains the procedure for customizing various country settings and application modules.

- Project IMG. The configuration process can be very daunting. To help manage the complexity involved in customizing when using the reference IMG, you can create each implementation project based on specific functions needed for business processes and the project requirements. For example, you can reduce the project scope to specific objects such as countries.

- Project View IMG. You choose certain properties by specific criteria in order to generate views to organize your project activities. For example, a project view could hold each activity required in a project IMG.

Matchcodes

Matchcodes are user-friendly search functions designed specifically to help you look up or retrieve data records stored in the system. They provide an efficient way of looking for records stored in the system when you do not remember the key.

Who should use this book?

This book is written for SAP FI, MM, SD and FI-AA functional consultants, application consultants, FI business analysts, accountants, FI project management teams, and FI accountants.

A Quick Review of the Book's Content

Each chapter provides a sequence to be followed in customizing SAP FICO from start to finish. The sequence has been arranged to give you the opportunity to work through a complete FICO customizing lifecycle progressively. Each chapter includes all the configuration concepts or activities necessary for your customizing or draws on a previous chapter.

Chapter 1 sets the scene by looking at organizational structure and explains how to create various objects in SAPR/3. This includes how to create company codes, business areas, segments, country-specific settings, and so forth.

Chapter 2 explains and defines the Master Record, including how to edit the Chart of Accounts and how to assign a company code to the Chart of Accounts. It further explores how to define the Account Group and Retained Earnings account.

Chapter 3 looks at the purpose of document control and various forms of document types in the SAP S4 system. It also looks at the steps involved in defining number ranges and setting field status variants. It emphasizes the various principles along with the importance of posting keys, normal and special posting periods, and how to create variants for posting periods.

Chapter 4 explores posting authorizations by discussing the purpose of posting authorization, defining tolerance groups for G/L accounts and employees, assigning users to defined tolerance groups, and creating accounts for clearing differences.

Chapter 5 takes a look at the general ledger and its sub ledgers. It covers when to use line items and open item management, how to create G/L accounts, and how to set other objects settings to consider when creating G/L accounts.

Chapter 6 discusses clearing open items and various types of open-item clearing issues. It covers configuring automatic open item clearing, maximum exchange rate difference settings, the importance of foreign currency valuation, foreign currency balance sheet accounts, and G/L account balances managed on an open-item basis. It also looks at types of exchange rates and how open items are valued in foreign currency.

Chapter 7 explains how to define local and foreign currencies for company codes, maintain the relationship between currencies per currency type, and the purpose of exchange rates. It also explores how to maintain the various exchange rate types and how to define translation ratios for currency transactions.

Chapter 8 explores how to define GR/IR (Goods Receipt/Invoice Receipt) and how to configure GR/IR settings in the SAP R/3 system.

Chapter 9 deals with the House Bank and how master records are created in it. It explains using the House Bank ID and account ID, bank statements supported by SAP, creating global settings for electronic bank statements, configuring manual bank statements, defining posting keys and posting rules for check deposit, and defining variants for check deposit.

Chapter 10 looks at taxes on sales and purchases, including VAT. It covers how to create sale and purchase taxes in SAP R/3, how to specify the tax category in the G/L accounts to which taxes are posted, how to assign the basic tax code for sales and purchases, how to specify the accounts to which different tax types are posted, and how to assign tax codes for non-taxable transactions.

Chapter 11 covers the cash journal by explaining what it is and explaining which items are defined when setting up a new cash journal. It identifies the document types for cash journal items, explains how to create G/L accounts for cash journals, and how to set up the cash journal.

Chapter 12 explains the Financial Statement Versions (FSV). The chapter looks at how to create an FSV from scratch, covers the specifications to be conducted when defining FSV, how to call up FSV hierarchy nodes, and how to assign appropriate G/L accounts.

Chapter 13 explores the Integration of FI with other modules in SAP R/3. This includes automatic postings of material to FI using the valuation class of material as the key to which the G/L account materials are posted, the settings for automatic posting configuration, how to create inventory accounts using the BSX transaction key, how to create corresponding credit accounts for GR/IR clearing accounts using the WRX transaction key, how integration of FI and SD works, and how to prepare revenue account determination.

Chapter 14 deals with Accounts Receivable and Accounts Payable by looking at what is Accounts Payable/Receivable, the steps involved in creating Payable/Receivable, what is Account Group and the function of Account of Account Group, how to enter Accounting Clerk name under an Identification code (ID), Create Number Range for Vendor/Customer, how to resolve Number Range overlaps, Assign number range to Customer/Vendor group, define account group with screen layout. The use of Payment terms in SAP, Assignment of Payment Terms to business partners, the purpose of defining payment terms in SAP, how to create an Installment Plan. How to configure Cash Discount Taken/Granted, Define Payment Block Reasons and process payment manually, how to Maintain Tolerance groups for Employees, Customers/Vendors, and GL Accounts. Finally, how to Maintain Automatic Outing Payment to allow the system to make multiple payments of open item invoices.

Chapter 15 looks at the various levels involved in defining dunning and the specification of Special GL transactions to allow the system to dun Special GL transactions.

Chapter 16 looks at why it is important to disclose Special GL transactions separately by using alternative reconciliation accounts. An explanation of Special GL Transactions includes Guarantees (Automatic Offsetting Entry (Statistical)) and Down Payments (Free Offsetting Entry). The Configuration of Special GL Transactions, What is Down Payment, Down Payment Made, Received and Requested and how to Define Tax Clearing Account for Down Payments

Chapter 17 looks at ledgers in SAP S4 HANA and the types of ledgers presented in S4, such as standard ledgers and extended ledger, and defines accounting principles that form part of parallel accounting. It also looks at how to define ledger groups, ledger settings for ledgers and currency types, and how to assign accounting principles to ledger groups.

CHAPTER 1

Customizing Financial Accounting Enterprise Structure in SAP S/4HANA

In this chapter, we will explore how to:

- Define Company Code in Global Settings and assign Company to Company Code.

- Define Fiscal Year Variants and the assignment of Fiscal Year Variants to Company Code.

- Define Open and Close Periods, how to define Open and Close Periods Variants, and the assignment of the defined open and close to Company Code.

Enterprise Structure (ES) is the foundation upon which your entire organization is built in the SAP S4 HANA System. The advantage of ES is that it gives you the platform upon which various models in your Organization units are provided. The Financial (FI) Organizational Elements you create in this chapter will form the basis upon which other configurations in subsequent chapters will be built upon.

Note How your project is structured is determined by how your organization unit is defined. Hence definition of your organizational unit is very important. You should only create the new organization unit that is required by your existing data structures. Since you cannot easily change an organization unit once created, it is therefore important to have an understanding of what your organization may look like in the future.

Let's look at the steps involved in this Customizing

When you logon to SAP S4 HANA, the **SAP Easy Access** screen is displayed, as in Figure 1-1.
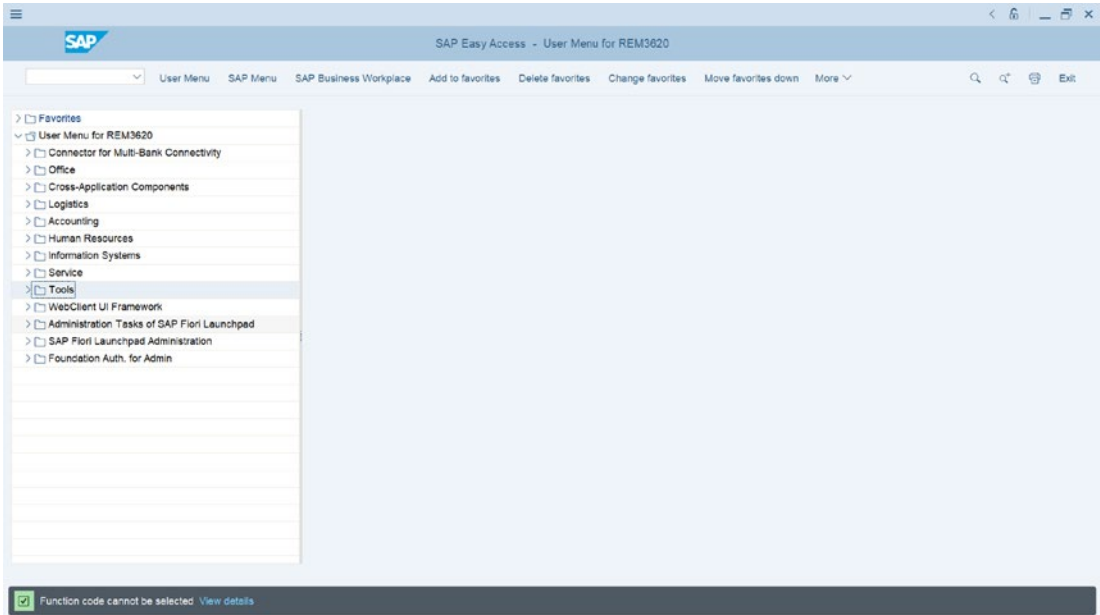
Figure 1-1. *Select Tools to start customizing*

The Easy Access screen contains a list of functions to choose from. It is the initial point of entry into SAP S4 HANA. To call up the Customizing: Execute Project screen where you will start your customization, follow the menu path: **SAP Easy Access ➤ Tools – Customizing ➤ IMG ➤ Execute Project (SPRO) ➤ SAP Reference IMG.**

A quicker way to access the Customizing: Execute Project screen is by using a transaction code (SPRO). Transaction codes are used to navigate tasks in a single step thereby bypassing the standard menu path that involves several time-consuming steps. You use a transaction code to access the task you want to execute by simply typing it into the Command Field at the top left hand corner of the Easy Access screen (Figure 1-1). Transaction codes are standard sets of alphabets and figures recognized by the SAP System that allow you to access specific tasks. The advantage of using transaction codes is that it is faster to access tasks or enter a customizing workspace that you want to execute in SAP quicker.

The SAP Project Reference Object (SPRO) is a standard transaction code to access the Customizing: Execute Project screen without having to use the menu path. SAP comes with a set of tables containing predefined transaction codes. This table can be accessed by typing SE38 into the command field to go to ABAP Editor: Initial Screen where you can see a list of transaction codes you may want to use. The ABAP Editor is beyond the scope of this book. However, you can also access transaction codes on the Easy Access Screen by choosing **More ➤ Extra ➤ Settings** on the menu bar at the top right hand of the screen or by simply pressing Shift+F9 on your keyboard. The Setting Screen will come up with what you can choose from. Select Display Technical Names, which is the fourth item on the displayed list of available options, by ensuring that the checkbox is activated and by pressing enter on your keyboard. This action will allow the system to display technical names with transaction codes before every function. We have also provided a list of useful technical codes in Appendix 1 which you can use as a reference.

To display the Customizing: Execute Project screen, type SPRO into the Command Field. The screen where you can start your customizing will be displayed, as in Figure 1-2.
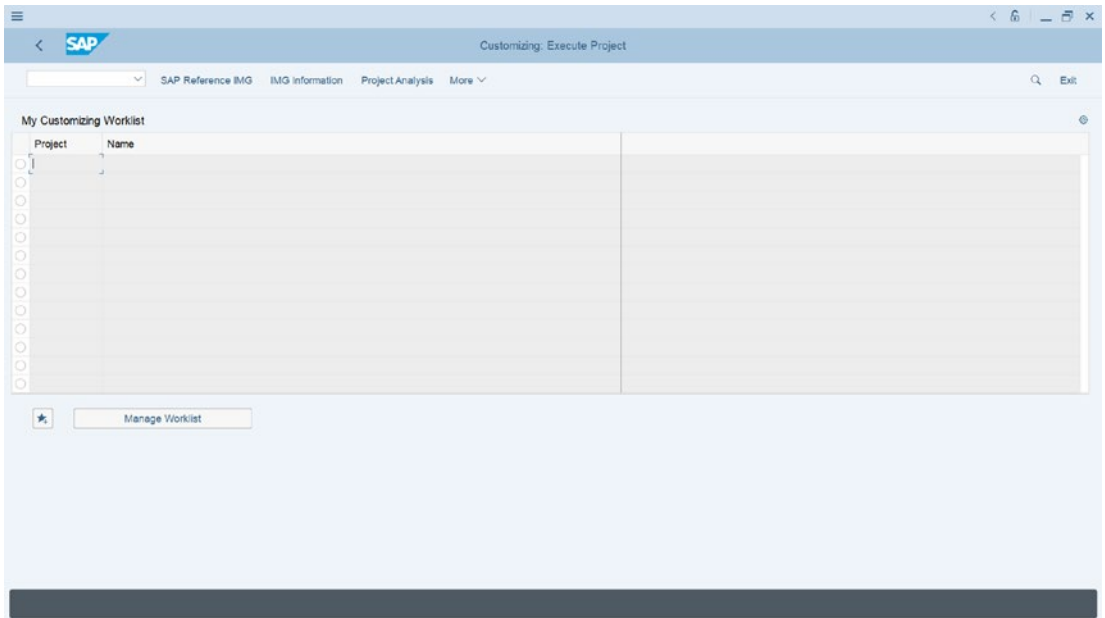
Figure 1-2. *SAP reference implementation guide*

At the top left hand of the screen, you will see the SAP Reference IMG button. IMG stands for Implementation Guide for customizing in SAP S4 HANA. When you click the SAP Reference IMG button, this action will take you to the **Display IMG** screen, as in Figure 1-3.
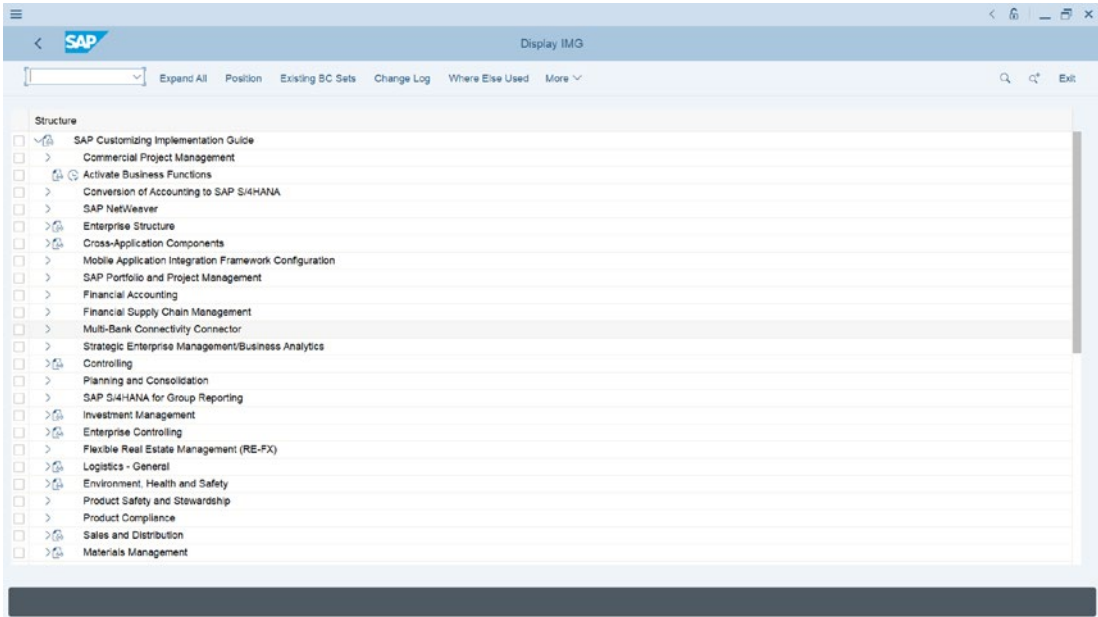
Figure 1-3. *Display IMG screen*

This is where you will start your configuration. In IMG structure, you can select the item you want to customize from the displayed lists on the structure.

Define Company

A company is an organizational unit for accounting purposes from which financial statements are generated in accordance with the legal requirements. Secondly, financial transactions are viewed at company code level. It is important that you define at least one company in the Enterprise Structure as part of the financial accounting component to which one or more company codes are assigned. You will define a company code at this initial stage and then later in this chapter you will also define company codes and assign the company codes you have defined to the company you have defined.

There are two ways to access the screen where you will define your company in SAP S4 HANA. You can either follow this menu path: ***Enterprise Structure ➤ Definition ➤ Financial Accounting ➤ Define Company***. This is a standard transaction code for creating a company in SAP S4 HANA. When you use either the menu path or the Transaction code, this will take you to the ***Change view "Internal trading partners":*** screen, as in Figure 1-4. This screen is where you will define the parameters for your Company.
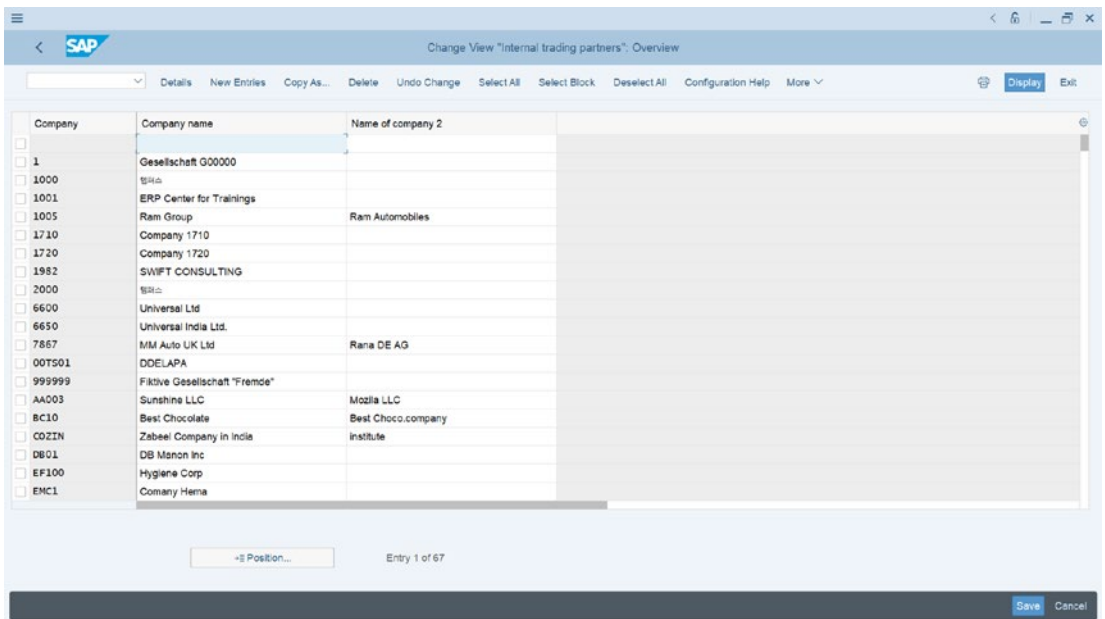
Figure 1-4. *Defining company*

Note   You will notice on the previous screen that a list of company codes are displayed on this screen. This is normal, as other Company codes may already exist in the system. All you need to do is to only create your own company code by hitting the New Entries button above.

Case study: As an SAP functional consultant working in a team of SAP consultant as part of your responsibility you are to customize the company code for your client – Spoxio Inc., a social media app company using C100 as the company code.

Click the New Entries button at the top left of the screen. This function will take you to the next screen ***New Entries: Details of Added Entries*** where you will define your company using up to a maximum of six characters and your company details, as in Figure 1-5.
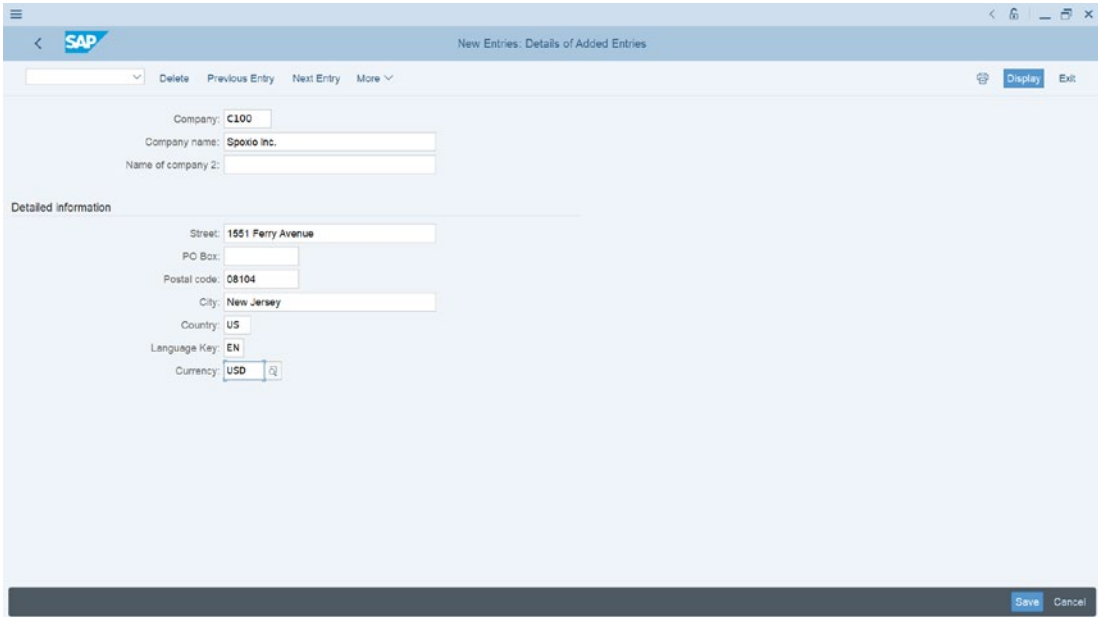
Figure 1-5. *New Entries screen to enter your company's details*

The New Entries: Details of Added Entries screen, Figure 1-5, is divided into two sections. The first section contains fields where you will enter your Company code and Company name. You have the option of entering a second company in the section if you have more than one company name. The second section is the detailed information section which contains fields that will enable you to enter the company's address, language key (your company language, for example, if you are in the USA, your company language key will be EN which stands for English) and your company currency (this is your company local currency in the USA, for example, the local currency key is USD which is United States Dollar). Update the following fields using the information below:

> **Company:** You can enter up to six characters as your company
> code in this field. You can use the details in Figure 1-6 as a guide.
> The code you enter here will serve as your company identifier,
> especially in an environment where other company codes are
> existing in the system. **Company name:** Enter your company

name in this field. For example, the company name we used in this activity is **Spoxio Inc**. This field allows you to use up to a maximum of 25 characters as your company name.

Detail information: This section will allow you to enter further detailed information about your company as part of your company definition. Details entered here will be used as your correspondence address and currency for generating company code financial statements. Enter your company's address, post code, city, country code, language key, and currency code in the appropriate fields.

Note   The SAP system comes with standard codes/keys for most countries:

- Country code/key: This key is represented in SAP S4 HANA as the country key where your company is operating. For example, the country code for Great Britain is GB, for the United States it is US, Germany it is DE, etc.

- Language code/key: This is your company language code. For example, Great Britain Language code is EN, USA is EN, and Germany is DE. Enter your company language key in this field. If you are not sure of your language key, you can search for it using the search function.

- Currency code/key: For example, for Great Britain the code is GBP, for the United States it is USD, and for Germany it is EUR. This is your company code local currency.

After you have entered your company code and address, as in Figure 1-5, click the save button at the bottom right of the screen to save your work. Click the Exit button at the top right of the screen to exit the screen.

The next step in this exercise is to define a company code for your company.

Define a Company Code

To meet a country-specific tax and legal reporting requirements, it is important to define at least one company code (you can define more than one company code depending on your requirements) that will be assigned to the company you defined above. All Company Codes are country specific. In SAP S4 HANA, the company code is an organizational unit used in FI (Financial Accounting) to structure a business process for financial reporting purposes.

In SAP S4 HANA you have the option to either define your company code from scratch or you can copy an existing company code supplied by SAP in the system. SAP recommends that you use the standard company code 0001 supplied by SAP in the system when copying an existing company code which you can modify to your own company code. The advantage of copying a company code supplied by SAP is that you are copying the existing company code-specific parameters you can modify to fit your requirements, and this will save you time in customizing.

To define your company code, follow this menu path: ***IMG ➤ Enterprise Structure ➤ Definition ➤ Financial Accounting ➤ Edit, Copy, Delete, Check Company Code***.