Discover SAP® ERP Financials
## Contents at a Glance

1. Overview ................................................................................. 27
2. General Ledger ............................................................ 39
3. Receivables and Payables ........................................... 73
4. Taxation .............................................................................. 107
5. Bank Accounting ...................................................... 141
6. Capitalization of Investments ................................. 177
7. Travel Management .................................................... 217
8. Payroll Accounting .................................................... 247
9. Consolidation ............................................................. 283
10. Overhead Cost Controlling ................................... 317
11. Project Accounting ......................................................... 351
12. Product Costing ............................................................. 385
13. Profitability Analysis ....................................................... 423
14. Financial Planning .......................................................... 457
15. Collections, Dispute, and Credit Management ........ 487
16. Cash and Liquidity Management .............................. 517
17. Treasury and Risk Management ................................. 545
A. The Author ................................................................... 577
B. Glossary ............................................................................. 579
Contents

Acknowledgments ................................................................. 17  
Preface ................................................................................... 19

1 Overview ........................................................................ 27
   What Does SAP ERP Financials Offer You? .................... 29  
   Where Can You Use SAP ERP Financials? .................... 32  
       Country-Specific Features ........................................... 33

2 General Ledger ........................................................... 39
   Overview .......................................................................... 40
   Functions in Detail ........................................................... 41  
       Corporate Structure .................................................... 41
       Basic Settings ............................................................ 45
       The New GL .............................................................. 51
       Special Purpose Ledgers ............................................. 56
       Accounting Transactions ............................................ 59
       Integration of the New GL ............................................ 64
       Financial Closing ....................................................... 65
       Financial Reporting ................................................... 69
   Summary .......................................................................... 71

3 Receivables and Payables ............................................. 73
   Overview .......................................................................... 73
   Functions in Detail ........................................................... 76  
       Master Data ............................................................... 76
       Customer Billing ........................................................ 80
       Incoming Payments and Cash Application .................. 86
       Vendor Invoice Verification ........................................ 88
       Payment Program ....................................................... 92
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functions in Detail</td>
<td>180</td>
</tr>
<tr>
<td>Investment Programs</td>
<td>180</td>
</tr>
<tr>
<td>Appropriation Requests</td>
<td>183</td>
</tr>
<tr>
<td>Investment Measures</td>
<td>188</td>
</tr>
<tr>
<td>Planning and Budgeting</td>
<td>191</td>
</tr>
<tr>
<td>Structuring Fixed Assets</td>
<td>196</td>
</tr>
<tr>
<td>Asset Transactions</td>
<td>200</td>
</tr>
<tr>
<td>Additional Functionality</td>
<td>204</td>
</tr>
<tr>
<td>Reporting</td>
<td>208</td>
</tr>
<tr>
<td>Case Study</td>
<td>211</td>
</tr>
<tr>
<td>Business Challenge</td>
<td>211</td>
</tr>
<tr>
<td>Solution Deployment</td>
<td>212</td>
</tr>
<tr>
<td>Value Achieved</td>
<td>214</td>
</tr>
<tr>
<td>Looking Ahead</td>
<td>214</td>
</tr>
<tr>
<td>Summary</td>
<td>215</td>
</tr>
<tr>
<td>7 Travel Management</td>
<td>217</td>
</tr>
<tr>
<td>Overview</td>
<td>218</td>
</tr>
<tr>
<td>Functions in Detail</td>
<td>220</td>
</tr>
<tr>
<td>Employee Mini Master</td>
<td>221</td>
</tr>
<tr>
<td>Travel Requests and Approvals</td>
<td>224</td>
</tr>
<tr>
<td>Travel Booking</td>
<td>227</td>
</tr>
<tr>
<td>Travel Expenses</td>
<td>231</td>
</tr>
<tr>
<td>Expense Accounting and Reimbursement</td>
<td>235</td>
</tr>
<tr>
<td>Compliance and Reporting</td>
<td>238</td>
</tr>
<tr>
<td>Case Study</td>
<td>241</td>
</tr>
<tr>
<td>Summary</td>
<td>244</td>
</tr>
<tr>
<td>8 Payroll Accounting</td>
<td>247</td>
</tr>
<tr>
<td>Overview</td>
<td>248</td>
</tr>
<tr>
<td>Functions in Detail</td>
<td>250</td>
</tr>
<tr>
<td>Process Overview</td>
<td>250</td>
</tr>
<tr>
<td>Earnings Calculation</td>
<td>252</td>
</tr>
<tr>
<td>Benefits and Deductions</td>
<td>256</td>
</tr>
<tr>
<td>Tax Calculations</td>
<td>265</td>
</tr>
<tr>
<td>Payroll Processing</td>
<td>268</td>
</tr>
</tbody>
</table>
9 Consolidation ................................................................. 283

Overview ......................................................................... 284
Functions in Detail ........................................................... 285
  Consolidation Alternatives ......................................... 285
  Consolidation Setup ................................................... 287
  Data Collection and Postings ...................................... 292
  Currency Translation .................................................. 297
  Elimination Entries ..................................................... 300
  Elimination of IPI ....................................................... 303
  Consolidation of Investments ..................................... 305
  Validations and Reclassifications ............................. 308
  Execution of Consolidation ........................................ 310
Case Study ....................................................................... 312
Summary .......................................................................... 315

10 Overhead Cost Controlling ........................................... 317

Overview ......................................................................... 318
Functions in Detail ........................................................... 320
  Overview of Controlling ............................................. 321
  Cost Elements in SAP ................................................. 323
  Cost Center Accounting .............................................. 326
  Internal Order Accounting .......................................... 329
  Activity-based costing ............................................... 332
  Period-End Closing .................................................... 337
  Reporting .................................................................... 343
Case Study ....................................................................... 345
Summary .......................................................................... 348
14 Financial Planning .................................................. 457

Overview ................................................................. 458
Functions in Detail ....................................................... 460
Common Planning Functionalities ................................ 460
Costs Planning ........................................................... 466
Revenue Planning ....................................................... 472
Other Planning Elements ............................................. 478
Case Study .............................................................. 482
Summary ................................................................. 484

15 Collections, Dispute, and Credit Management ...... 487

Overview ................................................................. 488
Functions in Detail ....................................................... 490
Credit Management Requirements ............................... 490
Credit Check ............................................................. 494
Comparison with SAP R/3 Credit Management ............ 496
Dispute Management Overview .................................. 498
Processing a Dispute Case .......................................... 501
Integration of Dispute Management .............................. 504
Collections Management Overview ............................ 505
Collections Worklists ............................................... 508
Collections Management Integration ......................... 510
Case Study .............................................................. 511
Summary ................................................................. 515

16 Cash and Liquidity Management ........................... 517

Overview ................................................................. 518
Functions in Detail ....................................................... 520
Cash Management ..................................................... 520
Cash Concentration ................................................... 527
Tools and Reports ..................................................... 530
The General Ledger (GL) forms the backbone of any accounting system. It records the financial impact of all the business transactions in your company, provides necessary information to prepare your financial statements, and helps you track and preserve the information you need for internal or external audits of your company. The GL is also one of the core Financial Accounting (FI) components in SAP ERP Financials. It provides you with functions for entering, recording, and evaluating accounting entries to make daily accounting operations fast and efficient.

This component is fully integrated with other SAP application components, such as Accounts Receivable (AR), Accounts Payable (AP), Asset Accounting, Sales and Distribution (SD), Materials Management (MM), and others. This integrated design allows other application components to automatically post accounting entries for relevant business transactions. These automatic entries ensure accurate, efficient, and real-time recording of financial transactions, which in turn, enables you to carry out real-time analysis and reporting of financial information.
Overview

The GL in SAP ERP Financials records all business transactions for statutory and management reporting purposes. Full integration of the GL with all of the other operational areas of a company helps ensure that the accounting data is always complete and accurate. In addition, by integrating all operational areas, entries in subledger accounts are automatically and simultaneously posted to appropriate control reconciliation accounts in the New GL.

GL accounting also supports many other functions, including parallel accounting, which allows for multiple accounting principles, Profit Center Accounting (PCA), segment reporting, and cost of sales accounting. You can maintain multiple charts of accounts to meet recording and reporting requirements, and by splitting maintenance of GL account data at the chart of accounts and company level, you can manage a number of GL accounts in your primary chart of accounts while taking care of local nuances. In addition, GL accounting allows you to create groups and hierarchies of profit centers to generate profit center reports at multiple levels of responsibility areas.

GL functionalities underwent significant changes in SAP ERP 5.0. These new functionalities and new technical architecture are commonly referred to as “New GL.” Another advantage of the New GL is the online document splitting functionality, which lets you prepare financial statements based on profit centers, functional areas, business areas, or other user-specified segments. As we’ll discuss in more detail later in this chapter, you can use the Accrual Engine to automate accruals processing by using complex calculation rules, and you can use the Closing Cockpit to obtain a single view of the status of the closing activities across your companies.

One of the really important features of SAP ERP Financials is the large number of standard reports it provides for financial statements and other reports required to meet country-specific reporting requirements. These reports provide visibility to ledger account balances and GL entries posted from other application areas. And you can use report development tools provided in the system to develop additional reports to meet your own requirements.
Functions in Detail

We’ll start this section by talking about how to set up the GL in SAP ERP Financials to deal with the most fundamental aspects of any accounting system, such as your corporate structure, fiscal years, chart of accounts, currencies, and so on. Then we’ll discuss some of the key features of the New GL followed by the discussion of special purpose ledgers. Special purpose ledgers enable you to create custom ledgers to record and report accounting transactions. This will be followed by posting accounting transactions and integrating the New GL with other SAP application areas. We’ll wrap up with coverage of two really important and useful features: financial closing and financial reporting.

Corporate Structure

One of the key things to consider if you choose to implement SAP ERP Financials is how you’ll represent your corporate structure, consisting of different companies and operating units within the SAP system. The decisions you make at this stage are extremely important and can have a considerable, far-reaching impact. SAP ERP Financials provides several different organizational units to map your corporate structure into FI component, company code, company, business area, profit center, functional area, and segments.

Company Code

The most important organizational unit in SAP ERP Financials is the company code. Business transactions relevant for financial accounting are entered, saved, and evaluated at the company code level. As a rule of thumb, for every legal entity for which you want to generate statutory financial statements (balance sheet and income statements), you’ll need to create a separate company code in the SAP system. Figure 2.1 shows some of the control parameters for a company code.

However, most corporate structures are not as simple to set up as a single legal entity. They typically consist of several legal entities that are associated with each other in complex equity investment relationships. These types of corporate structures require grouping legal entities together in the form of a company.
Company

You can use the company organizational unit in the SAP system to group one or more company codes together so that you can prepare consolidated financial statements. However, unlike company codes, companies should be defined only after careful consideration of your financial consolidation requirements. (We'll cover consolidation more in Chapter 9.)

Another use of the organizational unit “company” in the SAP system is as a trading partner. Let’s say, for example, company code A and company code B (both legal entities) sell and purchase goods from each other. This means that company code A is set up as a customer and as a vendor in the books of company code B and vice versa. By specifying “company” as a trading partner in the customer master and in the vendor master records, the SAP system is able to identify any transactions with those customer and vendor accounts as intercompany transactions. Again, the importance of this functionality will become evident
when we discuss the consolidation process; so, for now, let’s continue the discussion with other organizational units in the SAP system.

For the sake of simplicity, we’ll use company code and company interchangeably throughout the rest of the chapters.

**Business Area**

The organizational unit business area was introduced so that in addition to company codes, you can generate financial statements based on key operational areas, such as product lines, regional divisions, strategic business units, and so on. As mentioned earlier, the company code represents your corporate structure from an external, statutory viewpoint, whereas business areas enable you to view your corporate structure from the internal, management viewpoint for generating financial statements such as balance sheets.

You first set up business areas in the SAP system to meet your business requirements, and then you set up the system so that all relevant transactions are associated with one or more business areas. So as part of the month-end processing, you can carry out transfer postings and analyze financial activities just like you would for a company code.

It’s important to note that even though currently the SAP system supports business area functionality for compatibility reasons, it’s no longer being developed or enhanced any further. SAP recommends that if you have a new installation, you should consider using other organizational units such as profit centers or segments to meet your business requirements.

**Profit Centers and Segments**

Profit centers represent management-oriented structures of the corporation (e.g., departments, product lines, divisions, etc.) for the purpose of internal controls. You can analyze the operating results of a profit center based on costs and revenues posted to it. You can also associate assets and liabilities to profit centers. This enables you to prepare financial statements by profit centers. Because profit centers in the SAP system provide you with all of the functionalities of business areas discussed earlier, as well as additional features and functional enhancements,
we suggest considering implementing profit centers in the SAP system instead of business areas. We’ll discuss profit centers briefly later in this chapter; and in more detail in the chapter on Profitability Analysis (Chapter 13).

Another relatively new organizational unit in SAP ERP Financials is the segment. Segments can be freely defined, are generally derived from profit centers, and are used across all companies for reporting. This allows companies to insert their own organizational units into transactional data. For example, an insurance company may decide to use its Line of Business (LoB) as a Segment so that transactions can be allocated to appropriate LoBs, and the company can prepare financial statements by LoB. Even though profit centers and segments appear to cater to similar requirements, nuances between them will become clear later in this chapter. Lastly, let's look at the organizational unit functional area.

**Functional Area**

If you need to prepare reports per cost of sales accounting, you have to use an organizational unit called the *functional area*. Cost of sales accounting differs from the commonly used period accounting in one important aspect. In period accounting, the profit and loss statement is organized according to income types and expenses. On the other hand, in the cost of sales accounting approach, expenses are assigned to the functional areas within the company. Sales revenue for the accounting period is matched against corresponding cost of sales/merchandise. Expenses that cannot be allocated against the revenue are displayed separately.

To implement cost of sales accounting, you use functional areas in the system according to business functions, for example, production, testing, sales, support, administration, and so on. Functional areas can be linked to P&L accounts so that you can group, allocate, and report your operating expenses based on business functions.

In the SAP system, you have separate organizational units for different business processes and functionalities. These organizational units are linked directly or indirectly to a Company Code—the main organization unit corresponding to a legal entity. Although this adds complex-
ity to the system design and system implementation, it also provides you with considerable flexibility in incorporating your organization structure in the SAP system.

There are several other organizational units to be discussed, but we’ll get to those in later chapters when we discuss the relevant functionality. For now, let’s discuss the key settings that impact SAP ERP Financials, such as fiscal year, chart of accounts, accounting ledger, and currencies.

**Basic Settings**

After you set up organizational units to represent your corporate structure, you need to set up other fundamental areas of any financial system, including fiscal year, ledger, currencies, and chart of accounts.

**Fiscal Year**

You first need to define your fiscal year. A fiscal year in SAP ERP Financials can follow the calendar year (Jan. – Dec.), or it can be different from the calendar year (e.g., Apr. – Mar., Sep. – Aug., etc.). The fiscal year can consist of posting periods that correspond to calendar months, or you can define posting periods that have different start and end dates than calendar months. Not only that, a fiscal year can also consist of 12 posting periods or any number of posting periods.

**Tip**

All accounting transactions in SAP ERP Financials are posted to GL accounts as of the posting date, so they impact account balances in the posting period corresponding to the posting date. The system determines the posting date and posting period based on the definition of the fiscal year associated with the company code.

This design makes several variations of fiscal year definitions possible (see Figure 2.2) to meet different business requirements. For example, you can set up the following:

› A fiscal year corresponding to a calendar year, with 12 posting periods corresponding to a calendar month.
A fiscal year corresponding to a calendar year, with 12 posting periods, but the posting periods don’t correspond to calendar months (e.g., 4/4/5). You define the start and end dates of each posting period.

A fiscal year corresponding to the calendar year with more or less than 12 posting periods. You also define the start and end dates of each posting period.

A fiscal year that is any variation of the preceding, but the fiscal year doesn’t correspond to the calendar year.

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<td>N9</td>
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<td>K6</td>
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Figure 2.2 Setting Up Your Fiscal Year

In addition, you can define up to four “special posting periods” for a fiscal year. All special periods post on the last date of the last posting period of the fiscal year, but they let you separate year-end accounting entries. For example, any adjustment entries for a “soft” year-end closing can be posted to period 13, adjustment entries after internal audit review can be posted to period 14, adjustment entries after external audit review can be posted to period 15, and so on.

If at a later date, you need to change your fiscal year (e.g., changing from an Apr. Mar. to a Jan. Dec. fiscal year), SAP ERP Financials provides you with functionality to make this transition as easy and transparent as possible in other areas of the business. Now let’s take a look at the accounting ledger.
Accounting Ledger

At least one accounting ledger must be designated as the leading ledger for the company. The leading ledger records and reports on financial transactions with the accounting principles, currencies, fiscal year, and other parameters that are exactly the same as the company.

Additionally, if required, you can create a number of parallel ledgers called non-leading ledgers. Non-leading ledgers can differ from leading ledgers in terms of different accounting principles (IAS versus US GAAP), different currencies, or even a different fiscal year.

This concept of parallel ledgers is especially relevant and useful for multinational companies. In such global implementations, you can set up your primary ledger to correspond to the business requirements of your global, corporate headquarters. Postings made to this ledger always follow the accounting principles and requirements of the company headquarters. In addition, you can set up separate parallel ledger for each of the operating countries. Any accounting entries corresponding to local statutory requirements can be posted to these local ledgers.

Keep in mind, however, that by default, all accounting entries are posted to all ledgers. You can selectively post to only specific ledgers, however, thus giving you flexibility to carry out adjustment entries per IAS in one ledger and per US GAAP in another ledger. Automatic accounting entries originating in other SAP application areas can be grouped based on accounting principles, which in turn can be used to determine the ledger to which those entries are posted.

Tip

If you're using older versions of SAP ERP (prior to SAP ECC 5.0) for which the New GL is unavailable, you can carry out parallel accounting (e.g., valuation using different accounting principles) by using additional GL accounts, using additional company codes, or by creating additional special purpose ledgers in the special ledger component.

It's important to note that these leading and non-leading accounting ledgers are the ledgers consisting of GL accounts that only carry GL transactions. Customers (receivables), vendors (payables), and asset
transactions are represented in the ledgers only as a summary/control/reconciliation account and are posted to respective subledgers.

After your ledgers are set, another setting to address is your choice of currencies.

**Currencies**

Standard SAP ERP Financials comes ready with close to 200 currencies along with their relevant information (e.g., Japanese Yen with zero decimal places, Dinar with three decimal places, etc.). You can maintain exchange rates between currency pairs manually, or you can use an interface program to obtain and automatically update exchange rates from an external service. For each currency pair, you can maintain multiple types of exchange rates, including month-end rates, monthly average rates, and so on.

As long as you have proper conversion rates and exchange rates in the system, you can post an accounting entry in pretty much any currency. SAP calls this transaction currency, or the currency in which a transaction is posted to a ledger. Apart from transaction currency, you can define three currencies for each accounting ledger you use. One of the currencies in the leading ledger must be **company code currency**, which is the functional currency in which a company's statutory financial statements are prepared.

You can choose additional ledger currencies from group currency (for the purpose of consolidation), hard currency (if the company is based in a country with a highly volatile currency), index-based currency (if the currency is indexed), and so on. These settings mean that you can post an accounting document to an SAP system in any currency and get it automatically translated into three additional currencies. More typically, you would have at least two additional currencies—company code currency, required for preparing statutory financial statements, and a group currency, useful for preparing consolidated group financial statements. You can even set up the system so that document translation to company code currency occurs at the spot exchange rate, whereas translation to the group currency occurs at the average exchange rate.
Now let's look at the functionality available in SAP ERP Financials that is the cornerstone of any financial system: the chart of accounts.

**Chart of Accounts**

In the GL in SAP ERP Financials, one or more charts of accounts are used to group GL accounts. A chart of accounts that is associated with a company is referred to as its primary chart of accounts, and you can share one chart of accounts across multiple companies. Details of GL accounts are maintained at two levels:

- Information that is unique to the chart of accounts and can't be different in different companies, for example, the GL account number, account name, whether the account is a balance sheet or an income statement account, corresponding account in group chart of accounts, and so on.

- Information that isn't unique to the chart of accounts and that can be different in different companies, for example, currency in which the account balances are maintained, controls for sales and purchase taxes, whether accounting entries to the account can be posted through manual journal entries, and so on.

**Tip**

SAP provides chart of accounts templates for more than 25 countries in North America, Europe, and Asia. These templates provide you with typical setups for revenue and expense accounts, bank accounts, inventory and consumption accounts, payroll accounts, tax accounts, and various other types of accounts.

Depending on your consolidation process and how your group companies are structured, you have an option to set up two additional charts of accounts: group chart of accounts and country chart of accounts.

One approach is to set up every company with its own chart of accounts, and then use group chart of accounts for consolidation purposes. Another approach is to share the primary chart of accounts across all companies, and handle country-specific accounting by using country charts of accounts. Every GL account in your primary chart of
accounts is linked to a corresponding account in the group chart of accounts or the country chart of accounts. This makes preparing financial statements for consolidation (if you're using group chart of accounts) or for local statutory reporting (if you're using country chart of accounts) extremely efficient because every accounting entry is automatically recorded to the appropriate account.

One of the important accounts in a chart of accounts is a retained earnings account.

**Retained Earnings**

At year end, balances of all P&L accounts are transferred to a retained earnings account. In many lower-end accounting systems, this is done by actually posting a document that zeros out the P&L accounts and by transferring balances as opening balances of the balance sheet in the new fiscal year. However, this method makes it impossible to prepare an income statement for the last period in the fiscal year after the fiscal year closing has been carried out. In SAP ERP Financials, only the net balance is transferred as an opening balance of the retained earnings account, so that you can go back in history and create financial statements for any period.

In addition, you can set up more than one retained earnings account. Of course, one P&L account can be mapped to only one retained earnings account, but you can carry forward balances of different sets of P&L accounts to different retained earning accounts. This feature lets you create different financial statements at different levels by using different retained earnings accounts, which is yet another feature to assist you in carrying out parallel accounting. You may use multiple retained earnings accounts even if you are preparing only one set of financial statements. In this case, one retained earnings accounts can correspond to retained earnings from prior years, and other retained earnings adjustment accounts can correspond to corporate restructuring, manual adjustments, dividend payments, treasury stocks, and so on.

This design helps you contain proliferation of GL accounts in your primary chart of accounts and also meets the unique or one-off accounting
requirements of your companies. So let's take a look at some important functionalities of the New GL.

**The New GL**

You may have noticed in the previous sections several references to “New GL.” The reason for referring to the General Ledger functionality as New GL is that in SAP ECC 5.0, the General Ledger functionality underwent significant design and functionality changes. For the purposes of this book, “New GL” refers to the GL implementation where one or more of these new and improved functionalities are enabled or can be enabled. The SAP system even provides a conversion tool to convert GL data from Classic GL to the New GL, and this conversion takes considerable effort even with the help of that conversion tool.

In the new SAP implementations, the New GL technical design is enabled by default, even though you may not use or activate any of the new functionalities offered. However, thousands of existing SAP customers continue to use Classic GL, so we'll highlight the functionalities of the New GL so users of the Classic version can see the additional functionalities they would have by switching to the New GL.

We've already discussed one functionality of New GL—the concept of leading and non-leading ledgers that can be used to set up parallel ledgers.

Whether you choose to use any of these functionalities and how you map them to your existing business depends entirely on your requirements.

**Document Splitting**

One of the decisions you need to make while setting up the New GL is whether you want to activate the document splitting functionality. *Document splitting* can be used to produce balanced financial statements at lower levels than the company code, for example, at the profit center level. In the New GL, this functionality can be enabled for profit centers, business areas, and segments. Because segments represent user-defined criteria, you have a lot of room to enrich your GL postings by carefully selecting segments for document splitting.
Consider a simple scenario where a customer invoice for $5,000 is posted with revenue entries posting to two profit centers: $3,000 and $2,000, respectively.

Without document splitting, revenue numbers—$3000 and $2,000—are posted to individual profit centers. However, the customer receivable entry isn’t assigned to any profit center, which means that if you want to prepare accurate balance sheets by profit center, you have to do additional processing.

With the document splitting functionality enabled, the $5,000 posting to customer receivables is also split into two parts: $3,000 and $2,000, respectively, associated with each profit center. This enables you to separately view payables proportional to each profit center and thereby report them appropriately in the balance sheet by profit centers.

As shown in the preceding example, with document splitting activated, customer receivables are split by profit center. The splitting process is automatic in real time and performed in the background, so it’s transparent to the user. You can view an invoice document as it was entered or with all automatically generated entries.

The power of document splitting is evident when you consider its impact on subsequent entries. When a customer makes a payment against the invoice discussed previously, but there is a difference due to a cash discount (or it could be a short-payment or exchange-rate loss), those entries are split per the original profit centers as well. Figure 2.3 shows an example of the document-splitting process for a customer invoice.

For any object or combination of objects that you’ve selected for document splitting, you can set the system to ensure zero-balancing. In the example in Figure 2.3, after document splitting, if the net balance for a profit center is not zero, SAP automatically carries out balancing entries so that the net balance by profit center becomes zero.

In SAP ERP Financials, different business transactions, such as invoices, payments, and so on, are grouped into document-splitting rules that determine document-splitting triggers. These rules are grouped into a document-splitting method. All companies that belong to the same client (consider “client” as a “slice” of your SAP ERP database as set
up by people managing your software installation) must use the same technical method for document splitting. You can choose to exclude a company from using the same document splitting method, but you should consider how that will impact your inter-company accounting entries. You also need to decide whether to activate the negative postings functionality in the New GL.

### Example of Document Splitting

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<table>
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<th>Customer invoice (after document splitting)</th>
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<tr>
<td>Receivable Account PrCtr 001 $ 3,000</td>
</tr>
<tr>
<td>Receivable Account PrCtr 002 $ 2,000</td>
</tr>
<tr>
<td>Revenue Account PrCtr 001 $ (3,000)</td>
</tr>
<tr>
<td>Revenue Account PrCtr 002 $ (2,000)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer invoice with discount (as entered)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Account $ 4,700</td>
</tr>
<tr>
<td>Receivable Account $ (5,000)</td>
</tr>
<tr>
<td>Cash Discount Given $ 300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer payment (after document splitting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Account PrCtr 001 $ 2,820</td>
</tr>
<tr>
<td>Bank Account PrCtr 002 $ 1,880</td>
</tr>
<tr>
<td>Receivable Account PrCtr 001 $ (3,000)</td>
</tr>
<tr>
<td>Receivable Account PrCtr 002 $ (2,000)</td>
</tr>
<tr>
<td>Cash Discount Given PrCtr 001 $ 180</td>
</tr>
<tr>
<td>Cash Discount Given PrCtr 002 $ 120</td>
</tr>
</tbody>
</table>

**Figure 2.3** Document Splitting Example

### Negative Postings

Typically, when you reverse an accounting entry, debits and credits are posted to accounts that are opposite of those in the original accounting entry, which increases debit and credit transaction totals in each account. However, if you activate negative posting, debits and credits are posted as negative entries to the original accounts of the accounting entry, thereby reducing debit and credit transaction totals.
You can use this functionality to reverse incorrectly posted entries without having to increase debit and credit transaction numbers in the GL accounts. At the same time, this functionality can create confusion for an unknowledgeable person who is carrying out reconciliation between account balances and transaction figures. Therefore, SAP ERP Financials provides you with two levels of control: document types that are specifically identified to allow negative postings, and a control setting at the company code level to allow negative postings.

In addition, if a reversal is posted using a posting date other than the one for the original accounting entry, a setting for negative posting isn’t taken into account. This built-in control avoids negative transaction figures in individual periods. And it’s compatible with reversal entries originating in other SAP areas such as Materials Management, Sales and Distribution, Purchasing, and so on, although each of those applications must specifically indicate that the reversal entry is to be posted as negative posting.

We already talked about using the profit center organizational unit for reporting purposes, so let’s look at that functionality in a little more detail now.

### Profit Center Accounting

The Profit Center Accounting (PCA) component lets you determine profits and losses by areas of responsibility within your company for management controlling and reporting purposes (Chapter 13 goes into more detail about profit center accounting from a Profitability Analysis viewpoint). In SAP ERP Financials, it’s also possible to prepare complete balance sheets for each profit center by assigning asset portfolios, payables, receivables, material stocks, WIP (Work In Process), and other balance sheet items to profit centers; or you can choose to only selectively analyze balance sheet items (e.g., receivables and payables) by profit centers.

You can link default profit centers to cost centers, assets, GL accounts, products, and so on. For example, when an accounting entry is posted to a cost center, SAP ERP Financials automatically posts that accounting entry in parallel to the corresponding profit center. You can create
as many multilevel profit center groups as required for reporting. You have to create at least one profit center group to which all profit centers are linked; this profit center group is called standard hierarchy. The profit center standard hierarchy acts as a catchall profit center group and ensures that at least one profit center group represents your whole enterprise. In addition, you can group profit centers into additional groups for reporting purposes.

PCA setup is decidedly different depending on whether it’s integrated with the New GL or whether you’re using it as delivered in prior versions (called Classic PCA). Although most of these differences concern “how to do it” and not “what functionality is available,” PCA using the New GL provides similar functionality more efficiently and with reduced effort. You can approach it in two ways:

› To integrate PCA with the New GL, you define the profit center as one of the criteria on which document splitting is carried out. This setting ensures that accounting entries (e.g., receivables and payables entries) are split by profit centers and enables you to report on receivables and payables by profit center. If you want to prepare complete balance sheets by profit centers, you have to set the system so that the profit center is always required, and zero-balance check for profit centers is always performed in all accounting entries.

› If you intend to use or continue to use Classic PCA with the New GL, then automatic splitting by profit centers won’t occur, and you need to run additional programs at month end so that all accounting entries are analyzed and balance sheet entries are updated with the appropriate profit centers.

Each of these approaches has its unique reporting capabilities and constraints, and it’s possible—although not suggested—to continue using Classic PCA independent of using the New GL. It’s also possible—although not recommended due to large data volume—to run Classic PCA and the New PCA in parallel. You should make your final decision after carefully evaluating both approaches.

At this point, you should have a good idea of the unique features offered by the New GL. Before we proceed to discuss accounting transactions in the SAP system, let’s take a quick look at special purpose
ledgers (FI-SL in Figure 2.4) in SAP system. You may consider using special purpose ledgers if you have any statutory or management requirements to maintain a financial transaction ledger that differs from your main ledger in at least one key aspect such as fiscal year, type of posting period, or currency.

**Special Purpose Ledgers**

Special purpose ledgers allow you to define additional ledgers for reporting purposes. This component enables you to create customized SAP ledgers that meet your unique business requirements. This component provides fairly enhanced technical control over business transactions that are posted to your special purpose ledgers, including the details that they post with and the manner in which they are consolidated and reported. Remember that the special purpose ledger is a reporting component; it does not feed information into any other components of the SAP system.

**Tip**

Setting up special purpose ledgers in the SAP system involves a considerably complex technical setup. It’s usually preferable to switch on special purpose ledgers after your business has been using the primary functionalities of the SAP system for a while. This will ensure that when you are ready to set up special purpose ledgers, you are familiar with your SAP system as well as your business processes.

Figure 2.4 shows the functionalities available in the special purpose ledger. Special purpose ledgers provide a variety of functionalities for the accounting department. These ledgers refer to the same master data as in the main GL. You use the data transfer component to transfer actual data posted to other ledgers into a special purpose ledger. The integrated functionality also enables you to post entries to special purpose ledgers that can update balances in the main ledger. At the same time, you can also make accounting entries directly into a special purpose ledger. The allocations functionality available in special purpose ledgers is similar to the allocation functionality in the main GL (we will discuss this functionality later in this chapter).
If you are using parallel ledgers in the New GL, then you may not need to set up special purpose ledgers. However, even if you are using the New GL, there are still scenarios where special purpose ledgers can be useful. For example, a retailer may use a primary ledger with calendar month as the reporting period to meet its statutory requirements. At the same time, the retailer can set up a special purpose ledger with a week as the reporting period, so the company can monitor its business on a weekly basis. Let's explore the unique functionality of special purpose ledgers.
Special Purpose Ledger Functionalities
Some of the unique functionalities of the special purpose ledger component are as follows.

› **Flexible database structures with additional fields**
  You can create your own database tables and define non-standard dimensions that meet your business needs.

› **Ability to selectively choose data that gets updated**
  You can assign transactions to specific company code and ledger combinations, so that you decide which ledgers are updated by the data entered.

› **Adjustment postings local to special purpose ledger**
  You can make adjustment postings that are local to the special purpose ledger without impacting balances and transactions in the primary GL.

› **Alternative charts of accounts**
  You can use various different charts of accounts with your special purpose ledgers that are different from the ones used in the primary GL.

› **Alternative fiscal year**
  You can use various different fiscal year and posting period variants with your special purpose ledgers that are different from the ones used in the primary GL.

› **Parallel accounting**
  As already discussed, you can use special purpose ledgers for parallel accounting.

› **Totaled line items from other applications**
  You can total, modify, and distribute actual and plan data from other SAP and external applications.

The special purpose ledger component is introduced here because a large number of SAP implementations use it extensively for reporting purposes. However, all discussions throughout this book focus only on the primary GL.

In the next section, we'll take a look at how typical accounting transactions (e.g., journal entries) are processed in SAP ERP Financials.
Accounting Transactions

All accounting transactions are posted to the GL as financial documents, which, in SAP ERP Financials, consist of a document header and two or more document line items. Irrespective of the SAP application area, all business transactions that have financial impact create a financial document in SAP ERP Financials. Thus, a goods receipt in purchasing, which increases the value of an inventory account, creates a financial document; similarly, posting travel expenses in the Travel Management component increases the value of employee payables and creates another financial document. You’ll come across different types of these documents throughout this book, so this section only focuses on some very basic features of them.

Accounting Documents

In a financial document, the attributes associated with the document header and two or more line items make the document in the GL very important for recording and reporting financial activity. Some of these attributes capture standard information, such as the document date (typically the date when the document is entered in the system), posting date (the date the GL account balance is updated), company code, tax details, and so on. So, let’s discuss two extremely important attributes of a financial document: document types and posting keys.

Document types help to distinguish between business transactions. SAP provides more than 40 document types for different business transactions in receivables, payables, Asset Accounting, inventory accounting, and payroll (see Figure 2.5). Even though it’s recommended to use these document types as-is for their intended purpose, you can choose to create your own document types, modify existing ones, or use them for a different purpose than recommended. How you use document types to distinguish different transactions is largely a business decision.

Financial document types influence several important factors while posting accounting documents. For example, document types control which types of accounts can be posted to. So, if document type KR
(which represents a vendor invoice) is set up to allow posting to vendor accounts and GL accounts, and you try to use that document type to post an invoice from a customer, SAP ERP Financials displays an error. Document types also control the document numbering of accounting documents. If you're using secondary/non-leading ledgers, you can specify the number range by ledger for the same document type. This ensures that different ledgers can have continuous document numbers. Document numbers can continue across fiscal year boundaries or can reset to the initial document number every fiscal year.

![Figure 2.5](Financial Document Types in SAP ERP Financials)

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA</td>
<td>Asset posting</td>
</tr>
<tr>
<td>AB</td>
<td>Accounting document</td>
</tr>
<tr>
<td>AF</td>
<td>Dep. postings</td>
</tr>
<tr>
<td>D6</td>
<td>Customer credit memo</td>
</tr>
<tr>
<td>DR</td>
<td>Customer invoice</td>
</tr>
<tr>
<td>DZ</td>
<td>Customer payment</td>
</tr>
<tr>
<td>KG</td>
<td>Vendor credit memo</td>
</tr>
<tr>
<td>KR</td>
<td>Vendor Invoice</td>
</tr>
<tr>
<td>KZ</td>
<td>Vendor payment</td>
</tr>
<tr>
<td>RB</td>
<td>Reserve for Bad Debt</td>
</tr>
<tr>
<td>RE</td>
<td>Invoice - gross</td>
</tr>
<tr>
<td>RN</td>
<td>Invoice - net</td>
</tr>
<tr>
<td>RV</td>
<td>Billing doc.transfer</td>
</tr>
</tbody>
</table>

**Posting keys** are two-digit codes that determine two main attributes of every line item in an accounting document: 1) whether the line item is debit or credit, and 2) whether the line item posts to a GL account, customer account, vendor account, asset account, or inventory account. Many GL reports include posting keys and a few of the posting transactions also require them, so it helps to be familiar with some of the most commonly used posting keys; for example, you use 01 to debit the customer account, 50 to credit the GL account, and so on. Figure 2.6 shows some examples of available posting keys.

In the next section, we’ll discuss posting aids available for GL.
Posting Aids
After a document is posted in the SAP system, you cannot change the account number, amount, debit or credit, or other key information. Standard system behavior is to allow changes to very few fields after a document is posted, although this behavior can be changed through configuration for certain fields such as document text. All changes are automatically recorded with the user name and timestamp, thus providing you with a detailed audit trail.

If all of the information required to post an accounting document isn’t available, complete, or confirmed, you can park the accounting document. Parked documents don’t have any impact on account balances, but they can be reviewed later and then approved or rejected. Parked documents also support SAP Business Workflow, which enables you to automatically forward a parked document for review, and then post it to the New GL, if approved.

If, while posting accounting entries, the standard SAP applications display too many fields that aren’t always relevant (an accounting entry screen can have upwards of 30 fields for every line), you can create fast-entry screens for different transactions. These are user-defined data-entry screens in which you can choose to display only the fields you need. You can create one or more fast entry screen templates that display only those fields for which an entry is expected (e.g., GL account, Amount, Debit or Credit, Cost Center, Description, etc.), so that
document entry screens look simpler. In addition, users can set their own editing controls to make posting accounting documents easier. Figure 2.7 shows some of the parameters that an SAP ERP Financials user can set while posting accounting entries.

Recurring entries

SAP ERP Financials supports recurring entries by enabling you to create a recurring entry master document. Recurring entries can be posted using periodic intervals (e.g., every month, every other month, every quarter, etc.) or by using a run schedule. You can define a run schedule so that instead of a fixed date each month or each quarter, recurring entries are posted on specific dates, for example, on the 10th of April, 17th of May, 21st of June, and so on. So, a run schedule can be useful for recurring entries that do not conform to monthly periodicity. By using posting keys that post to customer or vendor accounts, you can easily create recurring entries for accrual postings such as rent. Using
a standard program, you can select and post all recurring entries that are due for posting. If recurring entries are in different currencies, you can use the original exchange rate or current exchange rate for each recurring posting run.

Recurring entries are useful if the posting information such as accounts and cost centers remains the same each period. However, if the posting details change each period, you can use the Act Assignment Model entry. Account assignment models act as templates in which GL accounts, cost centers, comments, and so on already exist, so you can change whatever information you like.

You can also use any existing document as a reference while posting new documents; or you can specifically create sample documents to be used as a reference. Sample documents don’t impact the ledger account balances. When using reference documents, you have the options to generate reverse posting, transfer entries with or without line item texts entered in the original document, recalculate amounts using the current exchange rate, and so on. The following section describes how cross-company documents can be posted.

**Cross-Company Documents**

SAP ERP Financials easily handles cross-company scenarios that involve more than one company. All you have to do is set up which GL accounts should be posted for debits and credits for each pair of companies. Consider a scenario where Company 1001 is making a payment to a vendor on behalf of Company 2001.

When you post this payment in Company 1001, you can specify that the payment is on behalf of Company 2001. SAP automatically creates a cross-company accounting document that posts receivables from Company 2001 into Company 1001 and payables to Company 1001 into Company 2001. All of these documents are linked with each other by a cross-company document number.

You can also use this functionality to post to more than two companies in the same document. While entering individual document lines, specify which company that line belongs to, the SAP system creates all of the necessary cross-company postings in the background. Of course,
just like any other accounting documents, these cross-company documents can be displayed, changed, or reversed.

Now that we’ve looked at how typical accounting transactions are posted in GL, let’s consider how financial documents posted in GL are integrated with business transactions posted in other SAP application areas.

**Integration of the New GL**

One of the most powerful features of the New GL is its full integration with other SAP application areas. For example, you can display a goods receipt against a purchase order, and from there, you can navigate to corresponding accounting entries posted to inventory accounts.

On the other hand, you can display any accounting document. If the document wasn’t directly posted to the New GL, you can navigate back to the original business transactions that caused this accounting entry by using the Document Relationship Browser.

Figure 2.8 shows a sample Document Relationship Browser screen for a relatively simple business scenario. The scenario corresponds to revenue posted by GL document 90001735, for which you want to review where those postings originated.

<table>
<thead>
<tr>
<th>Relationship Type</th>
<th>Description</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting document</td>
<td>00001 000001735 2012</td>
<td>2012</td>
</tr>
<tr>
<td>Outbound Delivery</td>
<td>0800001735</td>
<td>2012</td>
</tr>
<tr>
<td>Sales Order</td>
<td>0000001402</td>
<td>2012</td>
</tr>
<tr>
<td>Material Document</td>
<td>4900002897 2012</td>
<td>2012</td>
</tr>
<tr>
<td>Profit Center Doc.</td>
<td>0000015111 2012 A</td>
<td>2012</td>
</tr>
<tr>
<td>Accounting document</td>
<td>0001 480001800 2012</td>
<td>2012</td>
</tr>
<tr>
<td>Controlling Document</td>
<td>0001 0100012391</td>
<td>2012</td>
</tr>
<tr>
<td>Profit Center Doc.</td>
<td>0001 0000015121 2012 A</td>
<td>2012</td>
</tr>
<tr>
<td>Controlling Document</td>
<td>0001 0100012401</td>
<td>2012</td>
</tr>
</tbody>
</table>

**Figure 2.8** Document Relationship Browser

Even though we haven’t yet discussed the SAP application areas from which other documents shown in Figure 2.8 have originated, most
of these are intuitive. You can see the following from this document relationship tree:

- The New GL document under consideration was created with reference to customer billing document 0090001735.
- The billing document was created with reference to delivery document 0080000928 in shipping.
- The delivery document was created with reference to customer order 1402 in sales.
- Goods issue for that order was posted with document 4900002697 in Materials Management.
- Inventory account entries corresponding to that goods issue were posted with document 4900001801 in GL.
- Profit centers were posted with documents 15111 (goods issue) and 15121 (customer billing).
- Cost centers were posted with documents 12391 (goods issue) and 12401 (customer billing).

If you have enough authorization, you can even display any of these documents from the Document Relationship Browser. If you've spent time reconciling accounting entries in other systems, you can appreciate the tremendous power that this type of integrated view can give you.

Financial Closing

Depending on how many application areas you're using, the month-end and year-end closing process in SAP ERP Financials can be as simple as running a few simple balance carry-forward programs, or as complex as running a large number of programs across different application areas in a carefully planned sequence across multiple companies, multiple countries, and multiple time zones.

This section discusses some of the major month-end activities from the point of view of the New GL, such as allocations, currency valuation, and accruals. In addition, it discusses the Closing Cockpit, which can act as a single interface for your closing activities. You'll find details of other closing activities in the relevant chapters of this book. For example, bank statement reconciliation is discussed in Chapter 5.
on banking, and asset depreciation run is discussed in Chapter 6 on investment capitalization.

**Allocations**

Allocations enable you to periodically allocate amounts from senders to receivers. This section only refers to the allocation process in profit centers, but the New GL supports the allocation process for business areas, functional areas, and user-defined segments.

SAP ERP Financials supports two types of allocations: *assessment* and *distribution*. The assessment process posts amounts from the sending profit centers to the assessment account, from which amounts are debited to the receiving profit centers. Sending profit centers retain their original amounts. The distribution process credits sending profit centers and debits the receiving profit centers, thereby actually reducing balances of the sending profit centers by allocation amounts.

Allocation rules determine whether amounts should be allocated from the sending profit centers to the receiving profit centers using posted amounts (everything posted to the sending profit centers), fixed amounts, or fixed percentages. By associating ledger groups in the definition of allocation cycles, you can use amounts posted in one ledger to carry out allocation postings in all ledgers belonging to the ledger group.

**Tip**

It’s highly recommended that these allocations be used for profit centers or user-defined segments. For allocation of costs, the corresponding allocation functions in Overhead Cost Accounting should be used.

**Currency Valuation**

The SAP system supports currency valuation of accounting entries to the functional currency of the company. Depending on which other currencies are set up, you can also carry out foreign currency valuations in group currencies, hard currencies, or index currencies. The SAP system also supports currency translation per FASB 52 under US GAAP to any of these currencies.
Currency valuation of ledger accounts that are maintained based on ending balance (e.g., bank accounts in foreign currency) is handled differently from valuation of accounts maintained on a clearing basis (e.g., receivables accounts to which invoices and payments in foreign currency are posted). This difference ensures, for example, that any exchange gain or loss calculated on an open invoice at month end can be accurately adjusted based on the actual gain or loss realized when the payment against that invoice is received in subsequent months.

In addition to the standard valuation procedure where the exchange gain or loss is always recorded, SAP also supports other currency valuation procedures such as the lowest value principle, where only the exchange loss is booked; and the strict lowest value principle, in which the exchange gain or loss is booked only if the newly calculated gain or loss is more than the gain or loss calculated during the previous revaluation. Another important month-end activity is posting accruals.

**Accrual Engine**

If your month-end accrual requirements are relatively few and easy, then you can use the simple accrual programs provided in SAP ERP Financials. Using these programs, you specify the reversal date while posting accrual entries. Subsequently, you run another program that reverses all relevant accrual entries en masse. You can also use recurring entries described in the previous section to carry out accruals.

However, if your accrual requirements are pretty complex, such as a large number of active customer contracts involving different types of revenue and cost components that you have to accrue over different time frames, then you can use the Accrual Engine to efficiently process accruals.

The Accrual Engine can be set up to suit your requirements for accrual types, accrual components, accounting principles under which you carry out accruals, and other relevant parameters. Figure 2.9 shows how you can set up a simple one-year customer contract involving a revenue component and an expense component.
After such a contract has been set up, the Accrual Engine can accurately calculate and post summarized accrual entries each month. Not only that, if the original contract undergoes changes (e.g., early termination, addition of new services), the Accrual Engine can account for those changes.

**Tip**

SAP provides template programs that can be used to transfer accrual information from other application areas. Examples of contracts that originate in different application areas but can be set up in the Accrual Engine are lease contracts, financial contracts, customer service contracts, real estate contracts, and so on.
Closing Cockpit
The Closing Cockpit provides a single interface to all closing activities. You first set up a master list of all activities that you have to carry out during period end. These activities can include SAP programs, SAP reports, and manual activities done outside of the SAP application, along with detailed comments. With each activity, you assign its ownership to a user and assign the expected day relative to the close date; for example, depreciation run is carried out by Mr. Bob on “closing day–3.”

Every month, when this list is released, planned start and end dates are calculated for every closing activity and working list. You can start SAP programs or reports directly from the Closing Cockpit. Results of that activity (e.g., carry-forward ledger account balances) are updated back to the Closing Cockpit, indicating whether the process was successful or whether there were any errors.

For activities that are outside of the SAP system, you have to update the start and end status manually. Actual starting and ending dates and times are then updated for every activity, so that you can compare them with the planned dates and times.

You can duplicate this activity list for other group companies in your organization and then customize the activity lists of individual companies. For example, manufacturing companies will have more closing activities compared to service companies. This ability to maintain closing activities and track status in real time across all companies (even worldwide) gives you a very effective tool to improve your closing process. Figure 2.10 shows you a sample Closing Cockpit screen.

Financial Reporting
SAP provides a large number of standard reports to prepare financial statements, cash flow statements, and additional reports to meet country-specific requirements for a large number of countries. Other reports provide different views to GL account balances and accounting entries. You’ll find most of these reports neatly organized under the INFORMATION SYSTEM heading in the New GL area.
Financial statements

Using financial statement definitions, you can prepare one or more additional variations of financial statements (balance sheets and income statements) in multiple languages, different currencies, and at different levels—by individual companies, by business areas, or for a corporate group across multiple companies—to suit your requirements.

Tip

These financial statements provide income statement information only by GL accounts. If you want to have expense details by cost centers and revenue details by profit centers, you need to prepare those statements from Cost Center Accounting (CCA) or Profit Center Accounting (PA).

Normally, one of the goals of an SAP implementation project is to make information more visible, so as business users get comfortable with new processes, you’ll inevitably end up developing more reports to slice and dice the vast amount of integrated information available.
SAP ERP Financials also provides a *Report Painter* tool so that you can create additional reports. Report Painter is an extremely powerful tool for designing reports that easily fit into a row and column design. For example, if you want to carry out a comparative analysis of your expenses, you can create groups of accounts (sales, marketing, R&D, finance, etc.) and define them as rows of the report. Then you can create columns of that report to correspond to different time periods (current month, quarter-to-date, year-to-date, last year same month, etc.), and your report is ready! The Report Painter tool can be a little technical, but it’s formidable.

You can also use the SAP Query tool to get data out of SAP ERP Financials. After your technical team sets up the source of information that you can query on, this tool lets you pick and choose what information you want to display. This tool is really powerful if you want to report a large volume of data without the need for complex formatting but with the ability to slice and dice information.

Internal correspondence enables you to print accounting documents or accounting statements from GLs or subledgers. You can design and link forms to individual companies, so that you can use a single program to gather required data, but you can use different forms for different companies while printing account statements. You should keep in mind that the SAP software differentiates between a customer invoice printed from finance (that includes GL accounts and dollar amounts) and a customer billing document printed from sales, which typically includes stock and quantity details.

**Summary**

In this chapter, we covered key information about the diverse functionality available in the Classic GL, the New GL, and special purpose ledgers as summarized here:

- The ability to set up SAP ERP Financials to accommodate your organizational structure for external and statutory requirements, as well as for internal, management purposes
The ability to create user-defined segments, and associate or allocate accounting entries to segments for preparing LoB or segment reporting

The ability to use multiple charts of accounts that are seamlessly linked with each other to meet group requirements as well as local statutory requirements

The availability of multiple ledgers to accommodate parallel valuation requirements per multiple accounting principles or for differing management reporting requirements

Document splitting with zero-balancing functionality to produce balanced financial statements at lower levels than company code

The availability of special purpose ledgers to enable you to create custom ledgers that meet your requirements of fiscal year, posting periods, currencies, and the level of details captured in a ledger

Full integration of the general ledger with other SAP application areas providing you with visibility and traceability of accounting entries

System-delivered multi-currency, multi-language reports that also meet country-specific requirements for many countries in the world

The availability of tools to create your own reports for financial reporting and analytics

The ability to use the Closing Cockpit to improve visibility and control of closing activities across different functional areas across multiple companies in the organization

The Accrual Engine to handle posting of accruals irrespective of volume and the complexity involved

Next, in Chapter 3, we’ll explore receivables and payables.
## Index

401(k) plan contribution, 260  
1099 form, 122, 126

**A**  
Absence quota, 257  
Absenteeism, 254  
Account assignment  
   *models*, 63  
   *objects*, 237  
Account balance, 530  
Account-based Profitability Analysis, 431  
Accounting entries  
   *reconciliation*, 65  
Accounting principle, 47, 284, 286  
Accounting transaction, 59  
Accounts Payable component, 224  
Accounts Receivable, 489, 494, 504, 510  
Accrual  
   *cost element*, 325  
   *engine*, 67  
   *entries*, 558  
   *type*, 67  
Acquisition costs, 208  
Acquisition tax, 131  
Activity, 355  
Activity allocation, 342  
Activity-Based Costing, 332, 337  
Activity price, 402  
Actual cost, 410, 414  
Actual price, 414  
Additive costs, 398  
Adjustment entry, 285, 296  
Adjustment posting, 58  
ADP/ACP test, 258  
Advance payment, 159, 273, 569  
Alimony, 263  
Allocation, 427  
   *cycle*, 443  
   *percentage*, 335  
   *rule*, 66  
Alternative BOM, 416  
AMADEUS, 228  
Amortization, 558  
Analyzer Information System (AIS), 564  
Annual planning, 468  
Appropriation request, 179, 183, 185, 208  
   *details*, 183  
   *original*, 186  
   *variants*, 186, 192  
Approval level, 550  
Approval process, 185  
Approved budget, 193  
Assemble-to-order, 364, 394  
Assessment, 340  
Assessment process, 66  
Asset Accounting, 376  
Asset acquisition, 200, 202  
Asset-based securities (ABS), 553  
Asset capitalization, 197  
Asset class, 196  
Asset depreciation, 66  
Asset history sheet, 210  
Asset life cycle, 177  
Asset management system, 196  
Asset master, 206  
Asset retirement, 202  
   *partial*, 202  
Asset transfers, 202  
Asset under Construction, 357  
Asset useful life, 199  
Asset value date, 200  
Asset worklists, 210  
Assignment rule, 537  
Attributable amount, 568, 569  
Audit trail, 295, 319  
Authorization, 464  
Automatic invoicing  
   *vendors*, 74  
Automatic saving plan, 259  
Availability check, 230  
Availability control, 195
B

Back-office processing, 546
BACS, 148
Balance confirmation, 104
  notification, 104
  request, 104
  sheet, 428
Bank
  amount limit, 149
  chain, 148
  receiving, 147
  sending, 147
Bank account, 510, 527, 553
  determination, 157
  group, 529
  reconciliation, 518
  selection, 157
Bank chain, 146
Bank charges, 164
Bank currency, 144
Bank data
  temporary, 162
Bank directory, 143
Bank reconciliation, 142, 238
Bankruptcy, 492
Bank statement, 161, 162, 504
  automatic, 164
  manual, 163, 164
  search strings, 166
  search string simulation, 167
  transaction types, 163
Bank statement item, 537
Bank statement reconciliation, 273
Bank subaccount, 171
Bank transfer, 142, 148
Basic pay, 252
Benefit plan, 259
BIC code, 143
Billing
  collective, 81
  expenditure view, 84
  individual, 81
  interface, 84
  plan, 357, 364
Billing (Cont.)
  plans, 83
  request, 84
  sales pricing view, 84
Billing document, 65, 80, 368, 438, 439, 441, 446, 452
Bill of lading, 90
Bill of materials, 373, 398
  components, 417
  structure, 399
Bonds, 548
BPS, 534
Branch office, 488
Budgetary control, 177
Budgetary ledger, 481
Budget availability, 481
Budget availability check, 180, 195
Budget categories, 194
Budget Control System, 481
Budgeting, 460
Budgeting process, 480
Business activity, 462
Business area, 43, 288
Business partner, 490, 497, 510, 551, 560, 571
Business plan, 458
Business planning, 478
Business process, 320, 334, 335
Business transaction, 56, 64

C

CAD drawings, 376
Capacity leveling, 377
Capital flow, 562
Capital funding, 183
Capital gains tax, 557
Capital investment, 178
Capitalization date, 205
Capital planning, 352
Cash application, 501
Cash concentration, 528
Cash discount, 155
Cash journal, 171
Cash Management, 144, 145, 353, 366, 520, 532, 559
Cash planning, 521, 523
Cash position, 519, 534
Cash statement, 525
Cash receipts, 171
Catch-up method
depreciation, 204
Category attribute, 334
Characteristic, 432, 434, 444, 447, 450
Characteristics derivation, 434
Chargebacks, 87
Chart of accounts, 40, 49, 182, 286, 323
alternative, 58
consolidation, 289
country, 49
group, 49
Chart of depreciation, 199
Check clearing, 145
Checking rule, 493
Check management, 95
numbering, 151
one-off check, 94
payment, 149, 237, 523
printing, 94
processing, 94
Child support, 263
CIP account, 191
Claims, 371
Claims Management, 371
Class, 553
Classic GL, 51
Classic withholding tax, 122
Class position, 553
Clearing account, 96, 201, 205
Closing activities, 69
Closing balance, 164
Closing Cockpit, 65, 69
COBRA, 258
Code conversion, 573
Collateral Management, 141
Collection activities, 508
authorization, 168
Collection activities (Cont.)
costs, 475
group, 507
Management, 505
profile, 507
results, 508
rule, 506
segment, 507
strategy, 505, 511
worklist, 507, 510
Collection specialist, 505, 507
Collection substitute, 508
Collective costs, 320
Commission, 557
Commitment, 375
Commitment Management, 195
Company, 42
group, 156
paying, 156
sending, 156
Company code, 41, 51, 76, 78, 197, 321, 520
elimination, 286
Company code currency, 48
Company currency, 430
Complaint letter, 498
Compliance reporting, 238
Condition technique, 438
Confirmation, 375
trade, 561
Consignment settlement, 91
Consolidation, 284
currency, 299
frequency, 288
group, 288, 297, 302
hierarchies, 288, 310
ledger, 292, 293
monitor, 310
steps, 288
structure, 287
unit, 288, 298
version, 290
Construction In Progress, 189
Consumption sequence, 556
Contract type, 547, 551
Contribution margin, 450
Controlling area, 182, 321, 322, 426, 432, 461
currency, 461
Coordinator, 499, 502
Corporate credit card, 232
Corporate group, 306, 365
Corporate restructuring, 50
Corporate structure, 41, 43, 283, 297, 305
Correspondence, 75, 104, 546, 552, 560
monitor, 561
request, 503
Cost accounting, 321, 358
Cost allocation, 332, 336, 338, 341
Cost assessment, 341
Cost Behavior attribute, 334
Cost benefit analysis, 186
Cost center, 54, 61, 181, 197, 204, 236, 254, 331, 333, 334, 406, 441, 443, 459, 461, 467, 470, 477
Cost center group, 465
Cost collector, 338
Cost component, 417
Cost distribution, 222, 226, 335, 341, 359
Cost element, 323, 324, 406
Cost element group, 465
Cost estimate, 399, 400, 405, 417, 437, 438
Cost forecasting, 361
Costing alternatives, 396
Costing-based Profitability Analysis, 431
Costing model, 401
Costing run, 415, 437
Costing sequence, 416
Costing sheet, 357, 372, 398, 406, 438
Costing variant, 359, 398
Cost of sales accounting, 44
Cost origin, 407
Cost planning, 466, 468
Cost structure, 319
Credit
internal ranking, 491
Credit account, 533
Credit analyst, 493
Credit card, 238
authorization, 103
payments, 103
Credit check, 495, 497
Credit control area, 496
Credit exposure, 494, 495
Credit group, 491
Credit insurance, 494
Credit limit, 489, 490, 492, 494, 495
Credit Management, 490, 496
Credit monitoring, 490
Credit profile, 490
Credit rating, 491, 569
Credit risk, 492, 506
Credit Risk Analyzer, 568
Credit rule
ingine, 496, 497
formula, 492
Credit score, 492, 493
Credit segment, 490, 492
Cross-Application Time Sheet (CATS), 376
Cross-company document, 63
Cross-company document number, 63
Currency Exposure Analysis, 566
Currency translation, 284, 286
provisional, 298
Currency valuation, 67
Current cost estimate, 399
Current status, 331
Customer
billing, 79
complaint, 371, 502
different locations, 78
dispute, 487, 498
group, 436, 498
master, 489
payment, 498
Customized product, 394
Data integration, 439
Data monitor, 310
Data rollup, 293
Data version, 208
Date check, 556
Deal
capture, 552
execution, 559
processing sequence, 550
Decentralized dunning, 101
Decentralized planning, 461
Deduction, 252, 259, 271, 276
limit, 260
method, 254
priorities, 260
Deferred tax code, 134
Deferred taxes, 134
Deficit tolerance, 528
Delivery document, 65
Delivery note, 89
Dependency rule, 273
Deposited checks
electronic upload, 170
manual, 170
Depreciation, 470
area, 198
calculation, 203, 204, 205
correction, 204
frequency, 204
key, 199
method, 203, 209
run, 69
simulation, 189
types, 197
Derivation rule, 435
Derivative, 547, 561
Deutsche Bahn, 228
Dietz method, 562
Dimension, 288
Direct procurement, 415
Discount adjustments, 88
Discounted cash flow, 187
Dispute
amount, 500, 504
Dispute (Cont.)
case, 499, 500, 503, 510, 511
case template, 503
current, 504
Management, 490, 498, 504
note, 500
write-off, 505
Distribution, 340, 428
custom, 466
key, 464, 466, 474
%, 526
process, 66
rules, 209
Divestiture, 308
DMEE, 162
Document clearing, 95
control parameters, 59
management, 376
method, 52
numbering, 60, 549
Relationship Browser, 64
splitting, 40, 51, 55, 272, 427
text, 61
type, 54, 59, 295
Down payment, 102, 370
Drilldown report, 450, 533
DSO, 494
Dual control, 571
Dummy profit center, 426
Dunning, 75
amount, 495
area, 97
block, 101
level, 98, 494
notice, 99, 100
procedure, 99
process, 97
proposal, 100
run, 100

Easy Cost Planning, 359, 401, 469, 472
EC sales list, 128, 129
Electronic bank statement, 161
Electronic payment, 146, 151, 520
Electronic statement
  postprocessing, 167
Element, 407
Elimination entries, 301
Elimination lists, 302
Employee address
  multiple, 222
Employee headcount, 433
Employee loan, 262
Employee login, 222
Employee master, 269
Employee mini master, 220, 227
Employee transfer, 252
Encryption, 103
Engineer-to-order, 394
Environmental tax, 133
Equity consolidation, 284
ERS, 91
Escalation reason, 502
E-Travel Management, 229
Evaluated Receipt Settlement, 519
Evaluation, 377
  customer, vendor, 104
Evaluation score, 508
Excel in-place, 461
Excel integration, 467, 480
Exception list, 93, 157
Exception report, 240
Excess tolerance, 528
Exchange rate, 48, 287, 290, 294, 297, 299, 370, 415, 558, 562, 567, 574
  type, 48
Exchange rate type, 462
Execute transaction, 555
Exercise transaction, 555
Expense account, 262
  individual receipts, 233
  per diem, 233
  rates, 239
reimbursement, 237
report, 219, 232, 235
settlement, 235
  type, 233, 234
Expiration transaction, 555
Exposure amount, 568
  limit, 570
Extended withholding tax, 122
External services, 352
External settlement, 325
External transaction type, 163
External value added attribute, 334
Factoring, 254
FASB 52, 66
Fast-entry program, 556
Fast-entry screen, 61
FIFO, 556
File interface, 573
Financial appraisal, 187
Financial assets, 196
Financial document
  attributes, 59
Financial planning, 460
Financial product, 545
Financial reporting
  country-specific, 69
Financial statement, 41, 43, 50, 69, 286
Financial Supply Chain Management, 488
Financial transaction, 554
First consolidation, 306, 308
Fiscal year, 45, 60, 181, 200, 206, 323, 559
  4/4/5, 46
  calendar year, 45
Fixed cost, 401
Flexible forecasting, 450
Flexible spending account, 258
Flow type, 557, 558
FMLA, 257
Forecast, 476
Forecasting process, 480
Forecast version, 361
Foreign currency, 465
Foreign currency valuation, 66
Foreign investment, 545
Foreign payment, 149
Index

Formula planning, 471
Freight cost, 440, 445
FSCM, 25, 488
FS
   item, 300, 301
   item group, 300, 301
   items, 289, 294, 297, 300, 302, 303
   subitem, 290
Functional area, 44, 426
Functional currency, 297, 299, 301, 430
Fund center, 481
Funding request, 184, 191
Funds commitment, 481
Funds Management, 481
Fund transfer, 529
   request, 529
Futures accounts, 553

G

Galileo, 228
Gantt chart, 355
Garnishment, 251
   amount, 263
   deduction, 261
   order, 263
   request, 264
   rules, 263
GDS
   integration, 228
General Ledger (GL), 39
Generic interface
   billing, 74
GetThere, 229
Give Notice transaction, 554
GL account, 49, 323, 341, 424, 432, 479, 505
Global distribution systems (GDS), 228
Goods movement, 414
Goods receipt, 59, 64, 201
Goodwill, 307
Grading amount, 532
GR/IR clearing, 96
Gross payroll, 251

Group assets, 197
Group currency, 48, 300, 464
Grouping key, 101
Group valuation, 398

H

HCE, 258
Hedge strategy, 575
Hedging, 546
   contract, 574
   relationship, 574
HIPPA compliance, 276
Holiday bonus, 253
Holiday schedule, 556
Hotel Reservation Service (HRS), 228
Hourly wage, 255
House bank, 142, 143, 159, 553

I

IBAN number, 144
Incentive amount, 256
Incentive calculation model, 256
Incidental costs, 194, 304
Incoming payment, 504, 509
Index value, 558
Indirect allocation, 472
   investment, 308
Industry Solution, 141
Infotype, 221, 251, 269
Input tax, 127
Input taxes
   nondeductible, 133
Insurance premium, 206
Intangible assets, 196
Integrated ABC, 337
Integrated costing, 371
Integrated planning, 428, 459, 478, 479
Integration type, 293
Interest calculation, 530, 531
Interest indicator, 531
Interest on arrears, 99
Interest rate, 261, 517, 527, 567, 573
Interface Toolbox, 277
<table>
<thead>
<tr>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal controls, 416, 463, 572</td>
</tr>
<tr>
<td>correspondence, 71</td>
</tr>
<tr>
<td>Internal settlement, 325</td>
</tr>
<tr>
<td>Internal transaction type, 164</td>
</tr>
<tr>
<td>Internal value added attribute, 335</td>
</tr>
<tr>
<td>Interpretation algorithm, 165</td>
</tr>
<tr>
<td>reference document, 166</td>
</tr>
<tr>
<td>user defined, 165</td>
</tr>
<tr>
<td>Inventory adjustment, 303</td>
</tr>
<tr>
<td>Inventory cost estimate, 399</td>
</tr>
<tr>
<td>Inventory Management, 373</td>
</tr>
<tr>
<td>Inventory valuation, 376, 400, 413</td>
</tr>
<tr>
<td>Investment alternative, 187</td>
</tr>
<tr>
<td>Investment exposure, 567</td>
</tr>
<tr>
<td>Investment Management</td>
</tr>
<tr>
<td>multiple currencies, 209</td>
</tr>
<tr>
<td>Investment measure, 178, 182, 188</td>
</tr>
<tr>
<td>Investment performance, 563</td>
</tr>
<tr>
<td>Investment position, 357</td>
</tr>
<tr>
<td>Investment profile, 357</td>
</tr>
<tr>
<td>Investment program, 179, 180, 183, 189, 193, 209</td>
</tr>
<tr>
<td>Investment hierarchy, 180</td>
</tr>
<tr>
<td>Investment project, 188, 191, 193, 359</td>
</tr>
<tr>
<td>Investment reason, 184</td>
</tr>
<tr>
<td>Investment subsidies, 207</td>
</tr>
<tr>
<td>Investment support, 207</td>
</tr>
<tr>
<td>Investment tax, 132</td>
</tr>
<tr>
<td>Invoice block, 91</td>
</tr>
<tr>
<td>Invoice list, 165</td>
</tr>
<tr>
<td>Invoice revaluation, 92</td>
</tr>
<tr>
<td>Invoice variance, 90</td>
</tr>
<tr>
<td>Invoicing plan, 92, 375</td>
</tr>
<tr>
<td>IPI, 303</td>
</tr>
<tr>
<td>hierarchy, 563</td>
</tr>
<tr>
<td>Knock-In transaction, 555</td>
</tr>
<tr>
<td>Knock-Out transaction, 555</td>
</tr>
</tbody>
</table>

**L**

| Labor cost, 402  |
| Leading ledger, 47, 51, 287  |
| Leased assets, 206  |
| Lease payments, 206  |
| Ledger, 293  |
| Legal entity, 44, 283  |
| LIFO, 556  |
| Limit group, 549  |
| Limit Management, 570  |
| Limits utilization, 576  |
| Liquidity forecast, 519, 531  |
| Liquidity item, 536, 538, 539  |
| Liquidity Planner, 534  |
| Liquidity planning, 519, 539  |
| Local currency, 463, 558  |
| Lockbox, 504  |
| Lockbox format  |
| BAI, BAI2, 169  |
| Logistics processing, 168  |
| algorithm, 169  |
| Logistics Information System, 477  |
| Logistics Invoice Verification, 88  |
| Lot size, 409  |

**M**

| Maintenance order, 178  |
| Make-to-order, 365, 412  |
| Make-to-stock, 396  |
| Management accounting, 318, 320  |
| Management structure, 43  |
| Manual clearing, 96  |
| Manual planning, 359  |
| Manufacturing environment, 405  |
| Market data, 572  |
| Market price, 563  |
| Market Risk Analyzer, 565  |
| Market scenario  |
| hypothetical, 547  |
| Market segment, 423, 424  |

596
Mark-to-Market Valuation, 566
Mass approval, 227
Mass production, 397
Master agreement, 552
Material cost estimate, 398
Material Ledger, 414, 437
Material master, 399
Material Price Analysis, 416
Material price control, 375
Material requirements, 395
Materials Management, 65
Maturity band, 564
Maximum document value, 494
Memo book, 549
Microsoft Access, 294, 376
Microsoft Excel, 294, 459, 460
Microsoft Project, 377
Milestone, 355
Milestone billing plan, 83
Milestone Trend Analysis, 379
Mnemonic name, 525
Modified Dietz method, 562
Modified standard cost estimate, 399
Modified workdays, 257
Money market, 549, 564, 565
Money-weighted rate of return (MWRR), 562
Month-end accrual, 67
Mortgage-based securities (MBS), 553
Moving average price, 415
MRP controller, 354
Multiple currencies, 322

Nielsen ID, 77
Nondeductible account, 133
Nonexempt amount, 264
Non-leading ledger, 47, 287
Note to Payee field, 166, 168
Notification, 371
NPV Analysis, 566

Off-cycle payroll, 269
Offsetting entry, 303
Operating concern, 429
Orbian payment, 172
Order processing, 495
Organizational assignment, 221
Organizational level, 520
Organizational structure, 41, 43, 54, 182, 322, 429, 444, 457, 547
Original company, 301
Outgoing payment, 367
Output tax, 127
Overall planning, 469
Overhead calculation, 363, 403, 406
Overhead management, 339
Overhead project, 360
Overhead rate, 325, 406
Overpayment, 270

Paid absence, 255
Paid amount, 504
Paid leave, 257
Parallel accounts, 286
Parallel ledger, 47
Parallel valuation, 552, 559
Parallel version, 337
Parent company, 306
Parked document, 61
Partial payment, 87, 501
Partial repayment, 262
Partial transfer, 308

NC-9901, 275
Negative assets, 196
Negative posting, 53
Net disposable income, 263
Net payroll, 251
Net present value, 187
Netting, 560
Network, 354
New GL, 51, 53, 55, 65
conversion tool, 51
Partner company, 301
Partner function, 75, 79
Partner unit, 290
Payables, 47
Payer, 147
Payment
  advice, 159, 529
  aid, 142, 158
  approval process, 159
  Bills of exchange, 172
  block, 168
  clearing, 537
  controls, 155
  control parameter, 94
  data, 154
  differences, 160
  flow, 147, 367, 522, 554, 557
  foreign currency, 161
  form, 150
  limits, 150
  media, 151
  method, 148, 254, 572
  OFX format, 172
  order, 160
  parameter, 93
  plan, 368
  probability, 524
  process
    processing, 86
    program, 92
  recipient type, 122
  request, 102, 159, 529, 560
  run, 92
  settlement, 75
  terms, 369, 518
  transfer, 370
  selection rules, 160
Payroll, 144, 238
  area, 268
  component, 220
  control record, 268
  correction, 269
  Deductions component, 250
  driver, 251
  outsourcing, 250, 276
Payroll (Cont.)
  period, 261
  process, 268
  run, 262, 269
  schema, 251
Pay scale, 253
Pensions contribution, 271
Percentage allocation, 189
Periodic billing plan, 83
Periodic-extract, 293
Periodic valuation, 412
Person responsible, 499
Plan allocation, 479
Planned amount, 469
Planned Balance field, 528
Planned cost, 397, 410
Planned date, 526
Planned quantity, 409
Planned revenue, 473
Planner profile, 464
Planning, 337, 425, 428, 446
  activities, 533
  aids, 401
  cost, 471
  criteria, 447
  cycle, 460, 462
  data transfer, 473
  framework, 424, 446, 467, 475
  functions, 469
  group, 524, 526
  horizon, 529
  interface, 468
  layout, 448, 464, 474
  level, 447, 523, 534
  method, 448, 475
  package, 447
  process, 193, 457
  scenario, 474
  sequence, 448, 476
  source, 523
  strategy, 394
  structure, 519
  type, 521
  version, 179, 459, 462
Plan simulation, 463
Plant, 177, 181
Plant maintenance, 197
Plants Abroad, 112
Plan values, 193
Plan version, 290, 467, 480
PMW format, 154
POR, 148
Portfolio Analyzer, 561
Portfolio hierarchy, 551, 561, 564
Portfolio position, 574
Position monitor, 559
Positive pay, 171
Post-capitalization
  asset, 205
Posting date, 59
  adjustment entry, 46
  key, 60, 201
  level, 296
  period, 45
  period variant, 58
  run, 237, 272, 273
  special period, 46
  transaction, 60
  without taxes indicator, 117
Post Processing Framework, 503
Pre-investment analysis, 184, 186
Premature Settlement transaction, 556
Prepayment, 261
Price determination, 415
Price differences, 415
Primary cost element, 323
Primary ledger, 57
Process manufacturing, 395
Processor, 499, 503
Process order, 395
Procurement, 404
Procurement alternative, 416
Product assembly, 375
Product category, 548, 551
Product costing, 442
Product Costing, 477
  by order, 396
  by period, 396
  by sales order, 397
Product Cost Planning, 398, 405
Product group, 303, 304, 436, 450
Production cycle, 396
  order, 360, 375, 379, 411
  planning, 395
  settlement, 418
Product type, 342, 548, 551
Profitability, 352
Profitability Analysis, 376, 418, 424,
  431, 433, 435, 448, 459, 474, 566
  anticipated, 440
Profitability criteria, 425
Profitability segment, 433, 441
Profit center, 43, 51, 65, 181, 272,
  284, 288, 293, 300, 365, 444, 459,
  472, 478
Profit Center Accounting, 54, 425
  classic, 55
Profit center hierarchy, 55
Pro-forma invoice, 80
Program hierarchy, 189
  position, 181, 208
Progress tracking, 379
Project
  commitment, 369
Project accounting, 356, 370, 375
Project Builder, 355
Project Cash Management, 367, 370
Project management, 351
Project network, 358, 359, 363, 378
Project planning board, 355
Project solution, 352
Project status, 377
Project stock
  non-valuated, 374
  valued, 373
Project structure, 379
Project summarization, 379
Project System, 325, 353, 468
Project version, 377
Promised amount, 509
Promise-to-pay, 509
Proposal run, 93
Purchase order, 195, 201, 334
Purchase organization, 354
Purchase requisition, 367
Purchasing costs, 178
Purchasing organization, 76, 78, 416
Q
Quantity tracing, 335

R
Rates of returns, 561
Ratio, 449
R&D project, 351
Real-time method, 293
Reason code, 87
Receivables, 47
Receiver object, 339
Reclassification, 309
Reconciliation account, 77, 134
Recurring advance, 262
Recurring entry, 62
Recurring payment, 253
Reference interest rate, 530
Regional consolidation, 296
Relationship, 355
Relationship category, 572
Release invoices
automatically, 91
Release procedure, 550
Release workflow, 552
Repayment installment, 262
Repetitive codes, 158, 572
Repetitive manufacturing, 395, 396
Report Painter, 71, 378
Representative material, 474
Requesting company, 190
Reserve limit, 571
Residual payment, 87
Resource
consumption, 365
Resource-related billing, 84, 364, 413
Responsible company, 159
Resubmission request, 509
Results analysis, 325, 397, 412, 413
key, 357
quantity-based, 413
revenue-based, 413
Retained earnings, 307
account, 50
multiple, 50
Retroactive billing, 74, 83
Retroactive calculation, 268, 271
Retroactive changes, 269
Return on capital, 187
Revaluation, 476
Revenue, 353, 426
account determination, 81
accrual, 85
element, 323
planning, 364, 472
recognition, 85
Reversal entry, 54
Risk
assessment, 568
class, 492, 511
evaluations, 565
hierarchies, 565
management, 546
Management, 565
premium, 569
profile, 568
rules, 570
Roll Over transaction, 555
Root cause analysis, 500
Rounding differences, 300
Rounding rule, 123
Run schedule, 62
S
SABRE, 228
Sabrix, 112
Sales
delivery, 440
equalization tax, 132
forecast, 458
order, 364, 373, 394, 395, 403, 440
organization, 76, 78, 80
quotation, 366
rep, 499
Sample document, 63
SAP authorization, 550
SAP Business Workflow, 371, 493, 502, 550
SAP ERP HCM, 221
SAP NetWeaver BI, 534, 539
SAP NetWeaver XI, 229
SAP Query, 71
SAP workflow, 61
SAP XI, 121
Scenario progression, 567
Scheduling agreement, 89
Scrap percentage, 205
Scrap quantity, 409
Secondary cost element, 323
Securities position, 553
Segment, 44, 51
Self-billing, 82
Sender object, 339
Service charge, 265
Service order, 90, 355, 408
Service provider, 220, 229
Service-related revenue recognition, 85
Settlement cost, 411
Settlement data, 450
Settlement process, 191
Settlement process, 411, 550
Settlement profile, 372, 411, 441
Settlement rule, 363, 411
Settlement run, 235
Settle transaction, 554
Sick leave, 256
Simulation costing, 405
Simulation version, 377
SKF, 339
Smoothing method
depreciation, 204
Special GL indicator, 75, 102
Special purpose ledger, 56, 286
functionalities, 56
Standard algorithm, 165
Standard cost, 398, 400, 414
Standard cost estimate, 410
Standard hierarchy, 426
Standardizing entries, 295
Standard structures, 356
Statistical cost, 338
Statistical information
consolidation, 289
Statistical key figure, 426, 474
Statistical key figure (SKF), 338
Statistical posting, 357
Status management, 501
Status Management, 185, 331, 371, 502
Step acquisition, 306
Stochastic blocking, 91
Stock exchange, 553
Stockholder's equity, 305
Stock split, 561
Stock transfer, 445
Straight-line method, 199
Student loan, 264
Subaccount, 144, 145
Subassets, 197
Subcontracting, 398, 404
Subledger, 164
Subledger account, 40
Subnetwork, 355
Subproject, 366
Subsequent consolidation, 306
Subsequent credit, 88
Subsequent debit, 88
Substitution rule, 237
Summarization database, 208
Summarization level, 451
Summarization version, 208
Supplemental income, 266
SWIFT, 162
SWIFT code, 143, 146, 148
Symbolic account, 271
System status, 331
Target cost, 409, 418
Target cost version, 410
Target tax code, 134
Task structure, 188
Tax adjustment, 88
Tax area, 265
Index

Tax area, resident, 265
Tax area, work, 265
Tax authority, 108
Tax base accumulation, 124
Tax base amount, 117, 124
Tax calculation
  assignment, 112
  business place, 113
  differences, 118
  down payment, 117
  intercompany, 118
  nonprofit organization, 114
  procedure, 110, 132
Tax category, 116
Tax classification
  customer, 114
  product, 114
Tax clearing account, 135
Tax code, 49, 110, 115, 128, 235
  grouping, 121
Taxes, 368
Tax-exempt, 119, 127
Tax exemption certificate, 119
Tax-exempt transaction, 129
TaxFactory, 265
Tax GL account, 116
Tax identification number, 113
Tax jurisdiction code, 356
Tax level, 112
Tax model, 266, 267, 269
Tax payable, 121
Tax planning
  corporate, 107
Tax rate, 110, 115
Tax region, 111, 112
Tax remittance, 109
Tax reporter, 274
Tax reporting, 108, 240, 365
Tax return, 120, 250, 274
Tax self-assessment, 131
Tax subcomponent, 250
Taxware, 112
Technical assets, 196
Template allocation, 320
Temporal differences, 299

Term deposit, 568
Third-party
  data provider, 573
  remittance, 273
tax software, 119
Threshold value, 302
Timecard, 277
Time Management system, 255, 352
Time-related revenue recognition, 85
Time-weighted rate of return (TWRR), 562
Tolerance days, 155, 509
Tolerance limit, 87, 90
Top-down distribution, 191
Top-down distribution, 444, 475
Total transfer, 308
Tracing factor, 340, 341
Traders, 550
Trading limit, 571
Trading partner, 42, 95
Transaction currency, 48, 292
Transaction Manager, 547, 554, 563, 570
  subledger, 556
Transaction type
  internal, 164
Transaction type
  asset, 200
Transaction type, 549, 557
  external, 163
Transfer price, 445
Translation differences, 299
Translation method, 297, 299
Travel booking, 231
Travel Calendar program, 232
Travel expense, 219
Travel expense form, 220
Travel Expense Manager program, 232
Travel Management, 218, 376
Travel Manager program, 232
Travel plan, 229, 231, 232
Travel planner, 230
Travel planning, 219
Travel preferences, 219, 222, 230
Travel privileges, 221
Travel profile, 222
Travel request, 219, 224, 231
approval, 227
Travel reward program, 223
Travel rule, 239
Treasury department, 546
Trip
estimated costs, 226
Trip advance, 226
Trip data, 225
Trip number, 235
Trip provision variant, 238
Trip transfer document, 235
validation, 236

U
Unbilled receivable, 85
Underpayment, 270
Unit cost estimate, 404
Unit costing, 403, 469
Unit costing valuation, 404
User status, 331
Use tax, 130
calculation, 131
US GAAP, 289
US savings bonds, 259
Utilization report, 571

V
Validation rule, 285, 308
Valuated project stock, 374
Valuation, 558
Valuation point, 507
Valuation procedure, 559
Valuation process, 437
Valuation run, 416
Value-at-Risk Analysis, 566
Value field, 432, 433, 437, 438, 439, 445, 450
Value flow, 411
Variance, 442
Variance analysis, 417, 469
Variance calculation, 409
VAT, 109, 127
pro-rata ratio, 129
triangular deal, 129
VAT calculation, 128
VAT number, 128
Vendor account, 224
Vendor invoice verification, 74
Version, 292, 411
Version group, 377
Vertex, 112

W
Wage type, 252, 263, 271
indirect valuation, 253
WBS, 354
WBS hierarchy, 356
Web-based form, 402
Weekly reporting, 57
Weekly Report program, 232
WIP, 396
WIP calculation, 407, 408
Wire transfer, 150
Withholding allowance, 266, 275
Withholding tax, 109, 121, 266
accounts receivable, 122
income type, 124
recipient type, 124
Withholding tax certificate, 126
Withholding tax code, 126
Withholding tax report
electronic, 126
Withholding tax type, 124
Work Breakdown Structure, 188, 354
Workers' Compensation, 276
Working capital, 155, 487, 517
Work In Process, 54
Write-up
depreciation, 205
Index

Y
Year-end closing, 65
Yield calculation, 561
Yield curve, 567

Z
Zero-balance account, 527
Zero-balancing, 52, 427