

A photograph of a stack of five smooth, grey, rounded stones balanced on top of each other, set against a blurred background of a beach and ocean. The stones are the central focus of the upper half of the cover.

Financial Close with SAP S/4HANA[®]

- › Review essential steps to close your financial accounting, controlling, and consolidated ledgers
- › Use SAP Advanced Financial Closing to automate your close
- › Analyze and monitor close activities with key SAP Fiori apps and solutions like SAP Analytics Cloud

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Chapter 4

Financial Accounting Close

This chapter provides an integrated view of the major components involved in the period-end cycle, highlighting how each step contributes to a reliable financial close.

The financial close process in SAP S/4HANA plays a central role in ensuring the accuracy, completeness, and compliance of an organization's financial reporting. With SAP S/4HANA's unified data model and real-time processing capabilities, organizations can execute period-end activities with greater transparency and efficiency than ever before.

In this chapter, we'll begin by examining the foundational activities of opening and closing the period, which is a critical control point that governs when postings can occur. Proper period management ensures data integrity while balancing operational flexibility for business units. From there, we'll move into internal order and project close, exploring how organizations finalize project-related costs and settlements to prepare accurate financial results. These topics naturally connect to the nuances of fixed-asset close, where depreciation, asset capitalization, and project dependencies—especially those tied to capital projects—must be handled with precision.

The chapter then turns to the complexities of cross-entity activity through intercompany transactions, which is an area where SAP S/4HANA's automated matching and integrated processes significantly reduce reconciliation effort. As global operations expand, it becomes essential to manage currency revaluation to ensure that foreign currency balances reflect appropriate valuation adjustments at period end. We follow that with a look at journals and accruals, which serve as the final layer of adjustments to ensure that revenues and expenses are recognized in the appropriate periods.

Finally, we review the vital tasks of account reconciliation and general ledger allocations, in which SAP S/4HANA's reconciliation tools and allocation mechanisms help streamline the validation of account balances and distribution of shared costs.

Together, these sections provide a comprehensive roadmap for executing an efficient and controlled period end within SAP S/4HANA.

4.1 Open and Close Posting Periods

With the evolution from SAP ERP to SAP S/4HANA, a major transformation has been the shift from traditional SAP GUI-based transactions to SAP Fiori apps that offer a more intuitive, role-based, and real-time user experience. One of the key financial control tasks in SAP—the *opening and closing of posting periods*—has seen significant improvements in SAP S/4HANA, particularly through the introduction of SAP Fiori applications that enhance both usability and compliance oversight.

In financial accounting, managing posting periods is essential to ensure that transactional data is recorded in the correct fiscal period. This function acts as a control mechanism to prevent unauthorized or accidental postings to closed periods, which could compromise the accuracy of financial reporting. Traditionally, users managed this via transaction codes like Transaction OB52 in SAP GUI. However, the legacy approach had limitations in terms of auditability, user-friendliness, and role-based access control.

SAP S/4HANA introduces the Manage Posting Periods app (ID F2293), which replaces and enhances the functionality of Transaction OB52. This app enables finance teams to open and close posting periods more efficiently, with greater transparency and control. From a business perspective, this supports faster period-end closing, stronger internal controls, and improved segregation of duties.

Key enhancements include the following:

■ Role-based access

Unlike the older Transaction OB52, which required broad authorizations and could be risky from a governance standpoint, the Manage Posting Periods app allows granular, role-based access. This enables different users (e.g., general ledger accountants, controllers) to manage only the periods relevant to their business area.

■ Simplified UI

The Fiori interface is more intuitive, so it flattens the learning curve and reduces errors among new users. For example, users can open and close periods via simple dropdown lists and calendar-based inputs, rather than with complex transaction codes.

■ Multiple ledgers and accounting principles

With the increased use of parallel accounting in SAP S/4HANA, businesses often work with multiple ledgers (e.g., IFRS, local GAAP). The Manage Posting Periods app supports period control at the *ledger level*, which aligns with more complex reporting structures without requiring custom development.

■ Audit trail and change history

The Manage Posting Periods app provides better tracking of who changed what and when, which is critical for compliance and auditing. This supports organizations in meeting internal control requirements and external regulatory standards (e.g., Sarbanes-Oxley Act [SOX] compliance).

■ Integration with other modules

The app integrates smoothly with other financial functionalities, such as controlling and

materials management, to ensure consistent period control among various dimensions of the business. For example, when a period is closed in financial accounting, related postings in asset accounting or materials management are also impacted to help avoid reconciliation issues.

Figure 4.1 shows the new Manage Posting Periods app, in which posting periods can be open for company codes, account types, and ledgers. The selected **Company Code View** shows posting periods from the perspective of a single company code. To make edits, you choose the **Posting Period Variant View** and directly add values in the **From** and **To** periods for each account type (**A**, **D**, **K**, **M**, **S**, or **+**).

Company Code	Ledger	Fiscal Year Variant	Account Type	Account Range	Open Period	Scheduled Open Period	Next Execution Time
Company Code: 1710 - Company Code 1710							
1710 (Company C...)	OC (Management Accounting)	K4 (Cal. Year, 4 Special Periods)	A (Assets)	0 - ZZZZZZZZZZ	Normal	013.2000 - 016.2030	
					Adjust...	001.2000 - 012.2030	
	OE (Commitment/Order Entry)		A (Assets)	0 - ZZZZZZZZZZ	Normal	013.2000 - 016.2030	
					Adjust...	001.2000 - 012.2030	
	OL (Ledger OL)		A (Assets)	0 - ZZZZZZZZZZ	Normal	013.2000 - 016.2030	
					Adjust...	001.2000 - 012.2030	

Figure 4.1: Manage Posting Periods App

A typical example of how we can use the period control at the ledger level occurs when a global organization operates in a country where for statutory reasons, the year ends in a different month than the one for the group (which is normally IFRS or US GAAP). In this case, we can and should use period control to maintain the different months for each ledger and open/close them as and when required.

From an operational standpoint, the Manage Posting Periods app helps streamline the month-end and year-end closing process. Previously, finance teams often maintained offline trackers or relied on coordination among teams to ensure correct period management. Now, the system provides real-time visibility into which periods are open, who has access, and what transactions are allowed. This reduces the risk of missed postings, duplicate work, and delays in financial close.

Moreover, companies with global operations or shared services benefit greatly from this enhancement, as it supports *centralized period control* with localized accountability. For example, a shared services team in India can manage period openings for several company codes in different time zones without disrupting local operations.

In conclusion, the shift to managing posting periods via SAP Fiori in SAP S/4HANA represents more than a technical upgrade—it brings significant business value. Through enhanced control, improved user experience, and real-time transparency, SAP Fiori-based

period management supports better financial governance, faster close cycles, and a reduction in compliance risk. For finance departments striving to be strategic partners in the business, this modernization of a core process is a meaningful step forward.

4.2 Internal Orders and Project Close

The settlement of internal orders and projects is a key component of period-end activities in SAP S/4HANA because it ensures that costs are accurately captured, allocated, and ultimately reflected in the organization's financial results. Internal orders and projects serve as essential tools for tracking operational and investment-related expenditures, and reviewing them properly at period end helps confirm that all postings are complete, valid, and aligned with business expectations.

We start this section by providing a structured approach to evaluating the readiness of orders and projects for settlement, and it emphasizes the importance of data quality, correct assignments, and the identification of any missing or incorrect postings. Then, we take a deeper look at the settlement process itself, distinguishing between operating expenditure (OpEx) and capital expenditure (CapEx) settlement scenarios. OpEx internal orders and projects typically settle costs to cost centers or profitability segments, to ensure that expenses are reflected in the correct functional areas. CapEx orders and projects, on the other hand, follow a more stringent path in which settlement results in the capitalization of assets and alignment with the organization's fixed-asset lifecycle. Together, these sections provide finance and controlling teams with a comprehensive understanding of how to review, validate, and settle internal orders and projects efficiently and accurately in SAP S/4HANA.

4.2.1 Internal Order and Project Completeness Review

In SAP S/4HANA, the accurate and timely settlement of work breakdown structure (WBS) elements and internal orders is fundamental to ensuring project expenditures are properly captured and transferred—to assets under construction (AuCs), or directly to final fixed assets in the case of CapEx, or to other cost collectors like cost centers in the case of OpEx. This process is essential to maintaining financial integrity, cost accountability, and compliance with internal and external accounting principles.

Before initiating settlement, users must complete several critical activities. These steps not only confirm the completeness and accuracy of project cost data but also support proper capitalization and depreciation downstream. SAP Fiori provides a range of intuitive applications to facilitate each step and ensure transparency and efficiency.

The first step involves confirming that all project-related costs are properly captured in the system. This includes costs associated with purchase orders, service entries, goods receipts, internal labor, and vendor invoices. A lack of completeness here can lead to capitalization gaps, cost leakage, or erroneous reporting. To ensure accuracy, finance and project control teams must review open purchase orders, confirm all goods and services receipts, and verify that vendor invoices have been fully processed. SAP Fiori apps such as Manage Project

Procurement (ID F2930) and Manage Journal Entries (ID F0717A) provide real-time visibility and control over these activities.

Figure 4.2 shows the Manage Project Procurement app, which you can use in the completeness review of CapEx and OpEx projects. The report draws your attention to a list of **Purchase Orders** and/or **Purchase Requisitions** for the projects chosen and their goods receipt and invoice receipt status so that you can take actions to close them.

Project	WBS Element	Material	Purchase Order Item	Delivered / Ordered Quantity	Supplier	Delivery Date / Status	Net Amount	Invoice Amount
Capital Investment Project P23 1710-INV-2020-10	Erection of New Plant p23 1710-INV-2020-10	Capex Equipment EQ0001	450000025400010	1EA	Domestic US Supplier 6 (Returns) 17300006	20.12.2023 572 days overdue	130,00 USD	0,00 USD
Capital Investment Project P23 1/10 INV 2020 10	Erection of New Plant p23 1/10 INV 2020 10	Capex Equipment EQ0001	450000025700010	1EA	Domestic US Supplier 6 (Returns) 17300006	26.12.2023 5/2 days overdue	130,00 USD	0,00 USD

Figure 4.2: Manage Project Procurement App

Figure 4.3 shows the Post Goods Receipt app (ID F0843), and using it is the next logical step in the completeness review. When a user enters the relevant purchase order in the **Purchasing Document** field at the top of the screen, the system immediately returns the status of the receipts for the order and allows their posting and, in most cases, the cost to flow into the corresponding CapEx or OpEx project or order.

Material	Open Quantity	Delivered	Distribution	Plant	Storage Location	Stock Type
Trad.Good 11,PD,Reg,Trading TG11	1,000 PC	1,000	PC IP	Plant 1 US (1710)	EWM Av. for Sale (1715) IP	Unrestricted-Use

Figure 4.3: Post Goods Receipt App

Simultaneously, teams must address timesheet confirmations and resource-related entries. Employee and equipment time—especially for capital-intensive projects—constitute a significant portion of project costs. Ensuring that all relevant timesheets are submitted, reviewed, and approved is not only critical for internal cost accounting but also important from an audit and profitability analysis standpoint. Project managers and controllers should use tools like the My Timesheet app (ID F3074A) to manage and validate these entries, and they should use the Manage Internal Orders app (ID F1604) to get a consolidated view of order-level postings.

Figure 4.4 shows the Manage Internal Orders app. We recommend that users apply filters like **Order Type** and **Status** to select the CapEx or OpEx internal orders in question and then drill down into details if they need to.

Internal Order No.	Internal Order Desc.	Resp. Cost Center	User Responsible	Status	Deletion Flag	Statistical Order	Order Type	Order Type Name	Profit Center
1000000	R&D Internal Order - 2020.2	R&D (US)		Released	<input type="checkbox"/>	<input type="checkbox"/>	Y100	Internal Order: Research and Development	YB110
2000000	P23 Testing			Released	<input type="checkbox"/>	<input type="checkbox"/>	Y020	Internal Order: Overhead costs	YB900
2000001	R&D Internal Order 2020.2			Released	<input type="checkbox"/>	<input type="checkbox"/>	Y020	Internal Order: Overhead costs	YB900
5000000	Test-ECatt			Released	<input type="checkbox"/>	<input type="checkbox"/>	Y400	Internal Order: Marketing	YB110
5000001	Test Internal Order Marketi...			Released	<input type="checkbox"/>	<input type="checkbox"/>	Y400	Internal Order: Marketing	YB900
5000002	R&D Internal Order - 2020.2			Released	<input type="checkbox"/>	<input type="checkbox"/>	Y400	Internal Order: Marketing	YB900
10000000	Create Internal Order			Created	<input type="checkbox"/>	<input type="checkbox"/>	Y600	Internal Order: Investment	YB110
10000073	Create Internal Order	Financials (US)		Released	<input type="checkbox"/>	<input type="checkbox"/>	Y600	Internal Order: Investment	YB600
10000062	ad6 2023			Created	<input type="checkbox"/>	<input type="checkbox"/>	Y600	Internal Order: Investment	YB600
10000087	Internal order test DM	R&D (US)		Created	<input type="checkbox"/>	<input type="checkbox"/>	Y600	Internal Order: Investment	YB600
10000099	P23 test 1 auto	R&D (US)		Released	<input type="checkbox"/>	<input type="checkbox"/>	Y600	Internal Order: Investment	YB600
10001000	p23 test 1 auto			Released	<input type="checkbox"/>	<input type="checkbox"/>	Y600	Internal Order: Investment	YB600
10001005		R&D (US)		Created	<input type="checkbox"/>	<input type="checkbox"/>	Y600	Internal Order: Investment	YB600
10001157	TRACTOR1			Created	<input type="checkbox"/>	<input type="checkbox"/>	Y600	Internal Order: Investment	YB900
10001161	Honda generator test 1	Financials (US)		Released	<input type="checkbox"/>	<input type="checkbox"/>	Y600	Internal Order: Investment	YB600

Figure 4.4: Manage Internal Orders App

As part of financial readiness checks, users must also validate settlement rules and asset master data. These rules dictate how collected costs are ultimately distributed, whether to an AuC, a finalized asset, or another cost object. Finance users should confirm that settlement profiles are correctly maintained and that asset master records are active and complete.

Next, organizations must turn their attention to period-end accruals and allocations. Accruals ensure that incurred but unbilled costs are recorded in the correct accounting period, while overhead calculations and internal allocations complete the financial picture. Organizations must execute overhead calculations using the Run Overhead Calculation – Actual app (ID F4857) and ensure that all necessary accruals have been posted through the Schedule Accruals Jobs app (ID F3778). Automated tools like the Run Allocations app (ID F3548) and Schedule General Ledger Jobs app (ID F1927) further streamline these processes, particularly for recurring monthly activities.

Figure 4.5 shows the Run Allocations app displaying the existing allocation cycles and their status. We encourage users to run this app frequently to keep track of this important activity at period end, which should happen before settlements.

Select: Allocation Cycles for the Run

ADD STANDALONE ADD HIERARCHY

Search Go Hide Filter Bar

Allocation Cycle: Valid From: Allocation Context: Ledger: Allocation Type: Actual/Plan: Company Code: Allocation Status:

Plan Category:

Items (66)

Allocation Cycle	Valid From	Valid To	Company Code	Allocation Status	Allocation Context	Ledger	Allocation Type	Actual/Plan	Plan Category
<input type="checkbox"/> OA1010 (Quality c...	01.01.2019	31.12.9999	1010 (Company Code 1010)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA10200 (Service...	01.01.2019	31.12.9999	1010 (Company Code 1010)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA10300 (Manuf ...	01.01.2019	31.12.9999	1010 (Company Code 1010)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA1110 (Quality c...	01.01.2019	31.12.9999	1110 (Company Code 1110)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA11200 (Service...	01.01.2019	31.12.9999	1110 (Company Code 1110)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA11300 (Manuf ...	01.01.2019	31.12.9999	1110 (Company Code 1110)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA1410 (Quality c...	01.01.2019	31.12.9999	1410 (Company Code 1410)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA14300 (Manuf ...	01.01.2019	31.12.9999	1410 (Company Code 1410)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA1510 (Quality c...	01.01.2019	31.12.9999	1510 (Company Code 1510)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA15300 (Manuf ...	01.01.2019	31.12.9999	1510 (Company Code 1510)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA1710 (Quality c...	01.01.2019	31.12.9999	1710 (Company Code 1710)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA17200 (Service...	01.01.2019	31.12.9999	1710 (Company Code 1710)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	
<input type="checkbox"/> OA17300 (Manuf ...	01.01.2019	31.12.9999	1710 (Company Code 1710)	Unlocked (A)	Cost Centers	0L (Ledger 0L)	Overhead Allocation	Actual	

Figure 4.5: Run Allocations App

Figure 4.6 shows the Schedule General Ledger Jobs app, which gives users a unified view of all general ledger jobs running at month end. In this case, we have simply created the **Automatic Clearing** and **Advanced Foreign Currency Valuation** jobs, but we could have many more. The creation and management of these jobs has been significantly simplified, and now, business users can easily access and understand it.

< SAP Application Jobs v

Standard * v

Status: Date From-To: *

Search 01.01.2025 - 31.12.2025

Jobs (2) Standard * v Create Copy Details Cancel

Status	Log	Results	Steps	Job Name	Planned Start	Created By
Finished			1	Automatic Clearing	07.12.2025, 14:33	GB114333
Finished			1	Advanced Foreign Currency Valuation	07.12.2025, 14:30	GB114333

Figure 4.6: Schedule General Ledger Jobs App

Before proceeding with settlement, teams should conduct a detailed review of cost accuracy and budget compliance. Finance and controlling teams need to verify that actual costs are within the boundaries of approved budgets and that any variances are explainable and justifiable. This step helps ensure fiscal discipline, prevents surprises during audits, and

promotes accountability among project stakeholders. Real-time project tracking apps such as Project Cost Report (ID F2513) provide the necessary insight. The Project Cost Report offers a more granular look into cost breakdowns that helps teams detect anomalies early. As shown in Figure 4.7, the Project Cost Report app gives business users a holistic view of their projects, including a very important comparison and analysis of their planned values, commitments, and actuals.

ID	Name	Plan Cat. 2 Costs In Global Cu...	Plan Cat. 1 Costs In Global Cu...	Commitments in Global Curre...	Actual Costs in Global Currency	Variance (Plan Cat. 1 + ...)
1710-INV-2020-10	Capital Investment Project P23	0,00 USD	0,00 USD	0,00 USD	130,00 USD	-130,00 USD
1710-INV-2020-10	Erection of New Plant p23	0,00 USD	0,00 USD	0,00 USD	130,00 USD	-130,00 USD

Figure 4.7: Project Cost Report App

In the screen shown in Figure 4.8, we've gone one step further to include the budget information and its usage for the different projects in a hierarchical view. The table summary at the bottom of the app is very useful for identifying where to drill down into.

Navigation	P. N.	Object	Budget-total	Actual-total	Commitmen...	RemOrdPla...	Assigned-T...	Available-T...	Budget-Pre...	Actual-Prev...	Commitmen...	RemOrdPla...	Assigned-P...	Available-P...	Budget-2025
Object		PRJ 11 Capital Investment P	0	740	0	0	740	740	0	740	0	0	740	740	0
Val.catego		WBS 17 Erection of New Plan	0	390	0	0	390	390	0	390	0	0	390	390	0
Period/rea		WBS 17 Civil Work	0	350	0	0	350	350	0	350	0	0	350	350	0
Trans. Cur		WBS 17 Mechanical Work	0	0	0	0	0	0	0	0	0	0	0	0	0

Lead column	Budget	Actual	Commitment	RemOrdPlan	Assigned	Available
Overall values	1933	740	0	0	740	1193
Previous years	0	740	0	0	740	740
2025	0	0	0	0	0	0
2026	0	0	0	0	0	0
2027	0	0	0	0	0	0
2028 and Following	0	0	0	0	0	0
Total of years	0	740	0	0	740	740

Figure 4.8: Project Budget Report App

To summarize, ensuring settlement readiness in SAP S/4HANA is a multifaceted process involving financial validation, operational confirmations, and data governance. By leveraging the robust capabilities of SAP Fiori apps, organizations can achieve end-to-end transparency and accuracy across their capital projects. This proactive approach not only facilitates timely and accurate settlement but also strengthens compliance, enhances audit readiness, and supports informed asset capitalization and reporting decisions.

4.2.2 OpEx Internal Order and Project Settlement

Once they have completed all prerequisite activities, organizations can proceed with the settlement of WBS elements or internal orders. *Settlement* is the process of transferring collected costs from temporary project objects to their final receivers, such as fixed assets or cost centers, to ensure that expenditures are properly capitalized or expensed.

In many organizations, internal orders and WBS elements are not only used for capital investment tracking but also for managing OpEx. These scenarios arise when businesses want greater transparency into operating costs such as marketing campaigns, maintenance activities, training programs, and IT service initiatives. Unlike capital projects, OpEx initiatives do not result in a fixed asset; instead, the costs must ultimately be settled to cost center, profitability segments, or expense accounts.

Imagine that a consumer products company launches a six-month national marketing campaign. To manage costs such as agency fees, digital ads, graphic design, and promotional events, the business creates an internal order. All related invoices, purchase orders, and service confirmations are posted to the internal order throughout the campaign. When the campaign concludes, the business needs to execute a clean financial close by settling the internal order to the correct cost center or profitability segment, thus ensuring that costs appear in the right functional area. Because these are operating costs, no asset is created, and no capitalization occurs.

A disciplined approach to OpEx settlement in SAP S/4HANA begins with using internal orders as short-term cost collectors rather than long-lived financial objects. Because OpEx initiatives typically span a defined business period—such as a marketing campaign, maintenance cycle, or departmental initiative—businesses should create internal orders with the expectation that they will be closed within the fiscal year or at the conclusion of the activity. This practice maintains financial clarity and prevents the accumulation of outdated or inactive orders that clutter the cost management environment.

A key element of OpEx settlement is ensuring that the correct receivers are always assigned. Businesses most effectively achieve this by defining internal order types with default settlement rules. When businesses create standardized templates for common OpEx activities—such as IT services, training programs, or research studies—they significantly reduce administrative effort and errors. These predefined rules ensure that costs automatically flow to the appropriate cost center or profitability segments and align with organizational budgeting and reporting structures.

When the nature of the OpEx initiative does not require complex cost tracking, it is generally advisable to avoid using WBS structures. WBS elements should be reserved for operational projects that genuinely require multiple layers of tracking or a structured phase approach. In most cases, internal orders offer a sufficiently robust and streamlined method for capturing OpEx costs while keeping processes efficient.

To support accuracy and timeliness, organizations benefit greatly from automating their periodic financial processes. Automated jobs for recurring settlements, routine accruals, and month-end validations reduce manual workload and improve consistency among cost

centers and business units. This automation ensures that OpEx costs are recognized in the right periods and reduces the risk of oversight during hectic financial closes.

Finally, once costs have been settled, the business should promptly close the originating internal order or block it to prevent new postings. This step ensures that all financial data reflects a complete and clean picture of the operational activity, without late or accidental entries. With the order closed, financial analysts and business leaders can confidently use SAP's embedded analytics to evaluate OpEx performance. Leveraging SAP S/4HANA's real-time reporting tools allows teams to compare planned and actual spending, assess trends, and make informed decisions about future operational investments and cost management strategies.

Together, these practices create a streamlined, transparent, and well-controlled OpEx settlement process that enhances both financial accuracy and operational accountability in SAP S/4HANA.

The revision and maintenance of settlement rules and actual settlement of both OpEx and CapEx projects and internal orders is done through the same SAP Fiori apps that we'll detail in the next section.

4.2.3 CapEx Internal Order and Project Settlement

When dealing with CapEx spend, the receivers of the settlement are different from those in OpEx. Let's first bring the CapEx scenario to life with a few practical examples:

- A utility company builds a new power substation and uses multiple WBS elements to manage phases such as design, procurement, and construction. Throughout the project, costs are collected against these WBS elements, and each month, they are settled to the corresponding AuC, preferably automatically. Once the construction is complete and the asset is operational, the project accountant reviews the project structure, confirms all costs are accounted for, and triggers the final settlement of WBS elements to the AuC and ultimately to the final fixed asset.
- An enterprise upgrades its network infrastructure in multiple offices, and it uses internal orders to capture costs in different regions. Upon project closure, the IT finance team executes the settlement process to transfer costs from internal orders to capital assets such as servers or network equipment. In this case, validation ensures that asset classes and useful life are correctly set up for each receiver.
- A manufacturing firm installs new machinery on its production line. It uses a WBS structure to manage installation costs, which include vendor invoices, internal labor, and engineering services. It uses settlement to move all relevant expenses into a machinery asset so that depreciation can begin. There is also an alternative scenario in which the firm uses WBS elements in a project with a mix of expenses and assets. In this case, certain machinery can have a retrofitted part capitalized directly while the labor is expensed and later settled as well. The WBS structure capabilities within Project System support these mixed scenarios adequately.

Throughout this process, there are a few best practices that we have seen make a positive impact:

- We previously mentioned the revision of settlement rules in Section 4.2.2. Our recommendation is to use the Manage Settlement Rules – Projects (ID F6842) and Manage Settlement Rules – Internal Orders (ID F5695) apps. Figure 4.9 shows how easily one can maintain the settlement rules of an internal order using the Manage Settlement Rules – Internal Orders app. In this case, the scenario is a marketing campaign in which both the periodic monthly settlement and the final settlement are done against the same cost center.

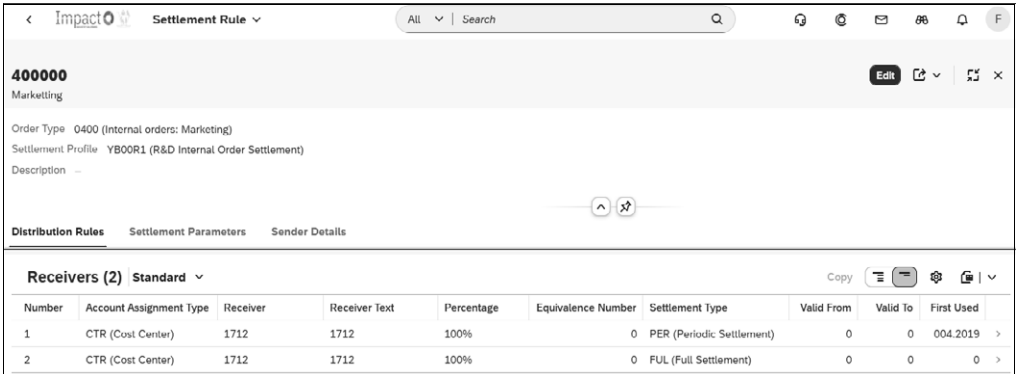


Figure 4.9: Manage Settlement Rules – Internal Orders App

- Always execute a test run to preview settlement results and check for errors. The standard Run Settlement – Actual app (ID F4568) has this functionality. Figure 4.10 shows a product development project about to be settled to a profitability segment, as defined in its settlement rules using the Run Settlement – Actual app.

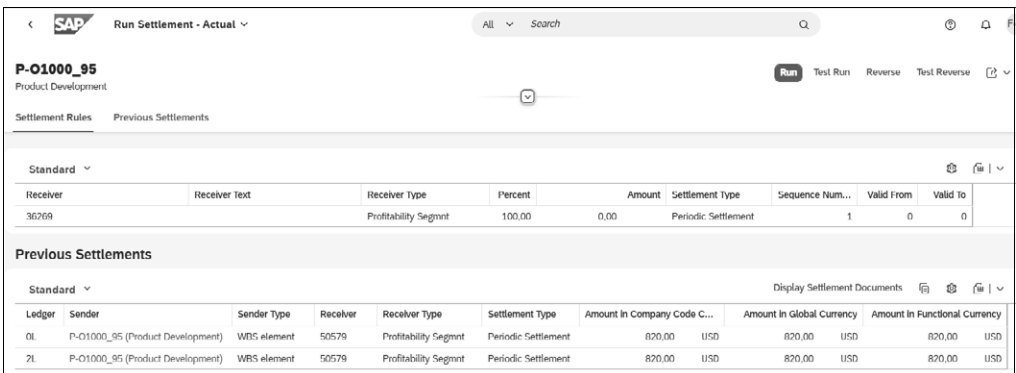


Figure 4.10: Run Settlement – Actual

- Perform settlement on a monthly basis, rather than waiting until fiscal year end, to improve reporting accuracy.
- Use the Schedule Overhead Accounting Jobs app (ID F3767) for batch processing or scheduled runs.
- Close or technically complete sender objects after settlement.

4.3 Fixed-Asset Close and Dependence on Capital Projects

In SAP S/4HANA, the fixed-asset close process plays a critical role in ensuring the accuracy and completeness of financial reporting at period end. Fixed assets represent significant long-term investments on the balance sheet, and accounting for them must adhere to both local statutory requirements and international financial reporting standards (e.g., IFRS, GAAP). An essential component of the fixed-asset lifecycle—and often the most complex—is the capitalization of AuCs, which frequently originate from capital investment projects.

Capital projects, such as the construction of buildings, purchase of heavy machinery, or implementation of IT infrastructure, are typically managed in the Project System module. These projects track detailed expenditures over time, which are accumulated under WBS or internal orders. Upon project completion, the business must settle the collected costs to an asset—either an AuC (in the intermediate stage) or a final fixed asset for depreciation and reporting purposes.

The fixed-asset close depends heavily on the accurate and timely settlement of capital projects, as any delays or errors in this process can result in underreported assets, misallocated depreciation, or audit issues. In SAP S/4HANA, you can manage these dependencies more efficiently, thanks in part to tight integration between asset accounting and Project System and improved tools for transparency and process automation.

SAP S/4HANA brings several SAP Fiori–based innovations that significantly improve the user experience and control over the asset close process:

- **Manage Fixed Assets app (ID F3425)**

This offers a real-time, user-friendly interface for viewing asset master data, planned and posted depreciation, and asset history. Using this app is critical during close, as it provides instant insight into asset values, acquisitions, retirements, and transfers.

- **Run Settlement – Actual app (ID F4568)**

This enables project accountants and controllers to initiate and monitor project settlements directly from a modern interface and ensure that capital expenditures are properly transferred to fixed assets.

- **Asset Accounting Overview app (ID F3096)**

This provides a dashboard-style overview of asset accounting key performance indicators (KPIs), such as acquisition value, net book value, and unposted depreciation. This helps finance teams monitor close progress.

- **Task-based closing cockpit integration**

In SAP S/4HANA, users can sequence and monitor financial close tasks centrally. The system can enforce dependencies—for example, by blocking depreciation runs until capital project settlements are complete. This minimizes the risk of missing key steps.

In this section, we'll run through the best practices for ensuring a smooth and timely fixed-asset accounting process, including the steps you need to complete beforehand. The settlement process includes assets under construction, the capitalization of fixed assets, their depreciation, the review and adjustment of mater data, and reporting.

4.3.1 Fixed-Asset Completeness Review

As part of financial readiness checks, users must validate settlement rules and asset master data. These rules dictate how collected costs are ultimately distributed, whether to an AuC, a finalized asset, or another cost object. Finance users should confirm that settlement profiles are correctly maintained and that asset master records are active and complete. In capital investment scenarios, it's especially important to ensure that assets are marked appropriately as under construction. The Manage Settlement Rules – Projects (ID F6842), Create Asset (ID AS01), and Asset Master Worklist (ID F1592) apps facilitate the creation and maintenance of these elements.

Figure 4.11 shows the Asset Master Worklist app, which is the first stop for users making completeness checks. The top buttons allow users to quickly filter the assets based on their status to narrow down their investigations and actions, which they can then follow up by simply drilling down into each asset.

Company Name	Asset	Sub-nu...	Description	Asset Class	Short Text	Cost Center	CstCtr Name	Capitalized On	Inventory Number
Company Code 1710	10000000	0	Real Estate Contract_21P	6210	FL Land	17101101	Financials (US)		
Company Code 1710	10000001	0	COB GA P23 Testing	6310	OL Land	17101101	Financials (US)		
Company Code 1710	10000002	0	Test	6210	FL Land	17101101	Financials (US)		
Company Code 1710	10000003	0	Test	6210	FL Land	17101101	Financials (US)		
Company Code 1710	10000004	0	asset creation testing	1100	Buildings	17101101	Financials (US)		
Company Code 1710	10000004	1	asset creation testing	1100	Buildings	17101101	Financials (US)		
Company Code 1710	10000005	0	test	1100	Buildings	17100200	Non Op Cost Cntr		
Company Code 1710	20000000	0	GA 2023 Contract	2000	Machinery Equipment	17101301	Manufacturing 1 (US)	01.11.2023	
Company Code 1710	20000001	0	Test Asset_01	2000	Machinery Equipment	17101101	Financials (US)	27.11.2023	
Company Code 1710	20000003	1	Test Asset	2000	Machinery Equipment	17101101	Financials (US)	28.11.2023	
Company Code 1710	20000005	0	Test Asset_01	2000	Machinery Equipment	17101101	Financials (US)	30.11.2023	
Company Code 1710	20000006	0	Test Asset_01	2000	Machinery Equipment	17101101	Financials (US)	30.11.2023	
Company Code 1710	20000007	0	Test Asset_1GB	2000	Machinery Equipment	17101101	Financials (US)	01.12.2023	
Company Code 1710	20000008	0	TestAsset_01	2000	Machinery Equipment	17101101	Financials (US)	01.12.2023	
Company Code 1710	20000009	1	Test/Asset_01	2000	Machinery Equipment	17101101	Financials (US)	01.12.2023	
Company Code 1710	20000011	0	Compressor Utility	22000		17101801	Other Inc.&Exp (US)	07.12.2023	
Company Code 1710	20000012	0	Generator-Diesel	22000		17101801	Other Inc.&Exp (US)		
Company Code 1710	20000013	0	Asset Pump	2000	Machinery Equipment	17101701	Plant & Maint (US)		134568
Company Code 1710	30000000	0	test	3300	Office Equipment	17101701	Plant & Maint (US)	01.09.2024	
Company Code 1710	40000000	0	Test_Post activation	4000	AuC	17101101	Financials (US)		
Company Code 1710	40000002	0	ASSET FOR P23 -338 - 03	4000	AuC	17101101	Financials (US)	30.11.2023	
Company Code 1710	40000003	0	Mechanical Work	4001	Investment Measure				
Company Code 1710	40000004	0	P23 test 1 auto	4001	Investment Measure	17101501	R&D (US)		
Company Code 1710	40000005	0	Test123	4000	AuC	17101501	R&D (US)		
Company Code 1710	40000006	0	Preoperative Expenses	4001	Investment Measure				
Company Code 1710	40000007	0	Civil Work	4001	Investment Measure				
Company Code 1710	40000008	0	Electrical Work	4001	Investment Measure				

Figure 4.11: Display Asset Worklist App

4.3.2 Assets Under Construction

Assets under construction (AuC) serve as interim fixed-asset objects that are used to accumulate costs for long-term capital investment projects. They are particularly useful when a project spans multiple accounting periods or involves significant ongoing expenditures before the asset becomes operational.

In what kinds of projects should we use AuC?

- **Long-duration projects**

These are infrastructure development projects like factory expansions, airport terminal construction, and utility infrastructure development.

- **Projects with staged approvals**

These are projects that require multiple phases of sign-off or commissioning.

- **Projects where capitalization rules apply only upon readiness for use**

Organizations following IFRS or US GAAP typically require capitalization to occur only once the asset is usable.

For example, say a telecommunications company is rolling out 5G towers nationwide. Construction will take 18 months and involve engineering, land acquisition, equipment, and testing. The company will use an AuC asset to collect all costs until each tower is completed and commissioned. At that point, it will settle costs to the final fixed asset, and depreciation will begin.

In what kinds of projects and situations should we not use AuC?

- **Small or short-duration projects**

Examples are laptop purchases and minor office renovations completed in a single period.

- **When capitalization can occur immediately**

If an asset becomes operational as soon as it is received or constructed (e.g., off-the-shelf machinery), direct settlement to the final asset is appropriate.

- **OpEx**

If an internal order tracks expenses that are not capitalized (e.g., for marketing campaigns), settlement to a cost center or expense account is more appropriate.

For example, say a company upgrades software licenses and receives all deliverables within thirty days. Since the asset is usable immediately and all costs are clear and final, the organization directly settles the WBS element to a fixed software asset, thus avoiding the need for AuC.

SAP S/4HANA has retained the flexibility for users to choose when to use an AuC. If we are to consider an end-to-end procurement process starting with a purchasing requisition and a purchase order, we can choose account assignment category A (for asset) in the purchase order and directly insert the asset to be capitalized upon goods receipt. The laptop example is a good fit for this process.

On the other hand—and again, considering an end-to-end procurement process—a long-term project would likely have the purchase requisitions and purchase orders with account assignment category P (for projects), which, when chosen, makes the WBS element field mandatory. This means that at goods receipt, the costs get booked into the profit and loss (P&L) account and the WBS element, which should be settled at the end of the month to the AuC until such time as the asset starts being used productively. That is when the final settlement and capitalization of the fixed asset should occur.

If the right decision is to create an AuC, we strongly recommend using the Create Asset app, which is shown in Figure 4.12. We can see that when we choose asset **Class 4000**, the account determination and other asset master attributes get defaulted automatically.

The screenshot displays the SAP 'Create Asset: Master data' application. At the top, the SAP logo and title are visible. Below the title bar, there are navigation options like 'Menu' and 'Search'. The main area shows the 'General' tab selected. Key fields include 'Asset' (INTERN-00001), 'Class' (4000), 'AuC', and 'Company Code' (1710). Under 'General Data', the 'Description' field is populated with 'Example SAP Press Book'. The 'Account Determ.' field is set to '160090', which is associated with 'Assets under Construction'. Other fields like 'Asset Main No. Text' and 'Serial number' are currently empty.

Figure 4.12: Create Asset App

Now that we have explained the scenarios under which we may or may not want to create an AuC, it's important to remind ourselves of the configuration options that automate many of the steps, including master data creation.

When we are using Project System, the main configuration steps to define automation regarding AuCs are the maintenance of the project profile (with Transaction OPSA) and the investment profile (with Transaction OITA). See Chapter 2, Section 2.3.10 and 2.3.11, for details on the master data.

The first step, maintenance of the project profile, allows for the automatic creation of the AuC for each WBS element flagged as an investment measure, and it can even derive and maintain a default settlement rule for the settlement of the AuC to the final asset.

Figure 4.13 depicts project profile configuration, which is accessible through SPRO in the SAP logon backend system (or Transaction OPSA), where we can set the automatic creation of an asset under construction for a given WBS element.

SAP Display View "Project Profile": Details

Proj.Prof.: YD00002 CIP: Investment Project Profile

Control Organisation Plg board/dates Controlling

Basic Data

Project Type: 01 BS element category A All acct asst elem

Field key - WBS: 0000001 User-defined fields Only one root

Field key -PD: Trsfr to proj.def.

Version prof.: 0000001 Standard version profile ChangeDocuments

Simulation prof.: Proj. summ. MastDa

Display options: 1 Identification using project n iPPE Proj. Rel.

PartnDet.Proc. Level of detail: 10

Figure 4.13: Project Profile

The second step, maintenance of the investment profile (via Transaction OITA; see Figure 4.14), involves controlling the asset class of the AuC, its number range, rules for the capitalization date, and depreciation start settings. We assign this investment profile under the project profile (see the previous step) so that everything is controlled from one place.

SAP Display View "Investment profile": Details

Investment Profile: YD0001 PS Model with line item settlement of AuC

Investment measure

Manage AuC

AuC per source structure/assignmt

Inv.meas. ast.class: 4001

Fixed default class

Settlement

Summary settlement

Line item settlement and list of origins

Figure 4.14: Investment Profile

When we are using internal orders, the settings are split into three steps:

1. Order type (Transaction KOT2_OPA)

Assign the **Investment** object class directly to the internal order type in the **Order Type**

field, as shown in Figure 4.15. This enables automatic AuC creation upon order release or first posting, and it triggers automatic generation of settlement rules based on profile logic.

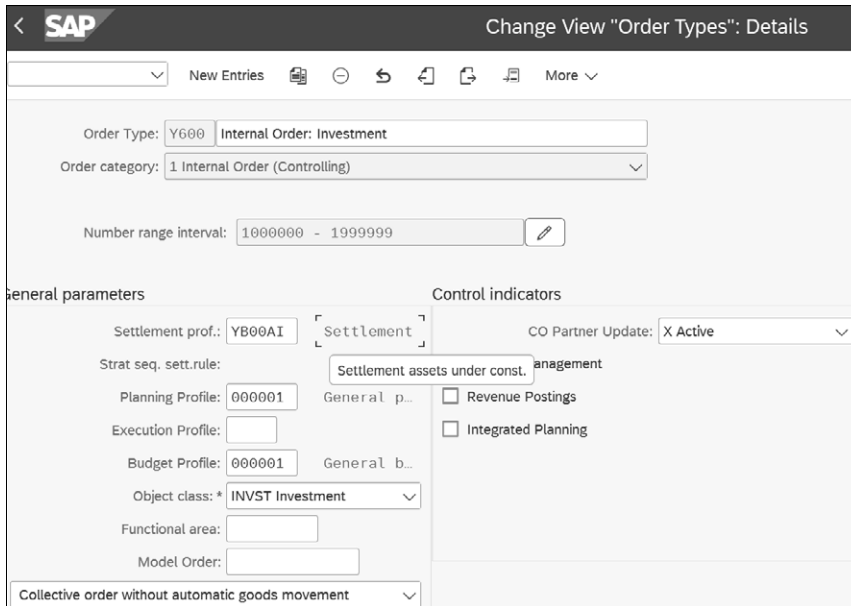


Figure 4.15: Order Type

2. **Settlement profile (Transaction OKO7)**

Figure 4.16 displays the configuration for defining how costs will be settled (e.g., AuC first, then final asset). It also specifies default settlement receivers, permissible combinations, and settlement timing.

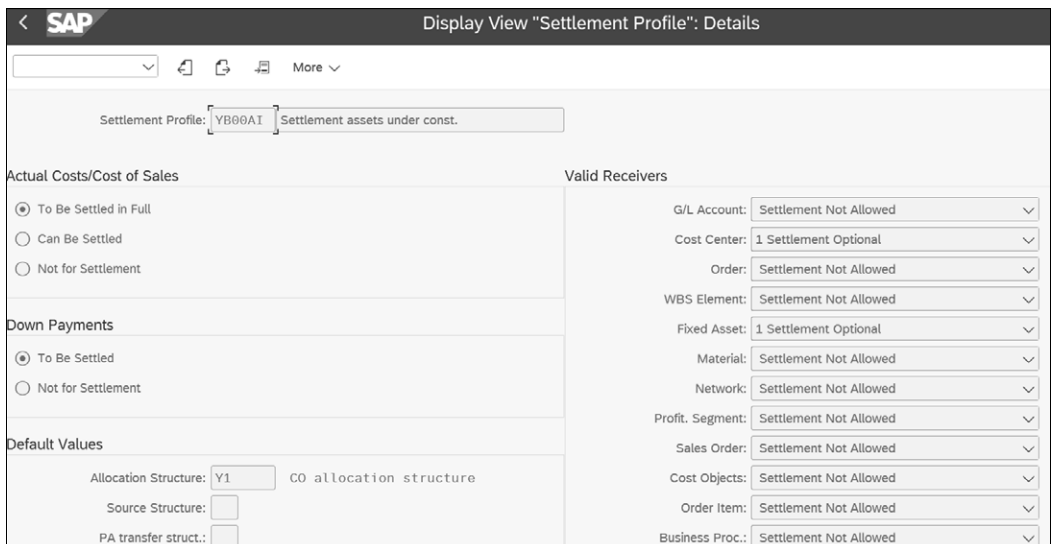


Figure 4.16: Settlement Profile

3. Investment profile (Transaction OITA)

Refer to our discussion of setting up the investment profile for WBS earlier in this section (and see Figure 4.14).

We strongly recommend going through these configuration steps and performing the appropriate setup for your businesses or those of your clients. This will reduce manual effort, increase compliance and control, improve project transparency, and enable integration between the procurement and fixed-assets modules.

4.3.3 Capitalizing Fixed Assets

In any organization, *fixed assets*—whether they be buildings, machinery, vehicles, or IT equipment—represent significant investments that deliver value over time. The *capitalization* process is the bridge that transforms expenditures incurred during project execution (e.g., construction costs, installation expenses) into tangible or intangible assets that appear on the balance sheet and are depreciated over their useful lives. As such, the capitalization process has the following key objectives:

- Complying with accounting standards (e.g., IFRS, GAAP)
- Matching costs with the periods in which assets generate revenue (this is the *matching principle*)
- Ensuring transparent and auditable asset valuations
- Enabling accurate financial reporting and performance measurement
- Supporting tax optimization by capturing eligible capital expenditures correctly

Imagine a utility company expanding its power grid. It spends millions on engineering, materials, labor, and equipment. These costs accumulate against WBS elements or internal orders, as already mentioned. Capitalization ensures that only costs that meet asset recognition criteria (e.g., directly attributable, bringing future benefits) move from work-in-progress (AuC) to final fixed assets. Once capitalized, assets begin to depreciate, which impacts profit and loss over their useful life instead of all at once.

Without disciplined capitalization, companies risk the following:

- Overstated expenses and understated profits
- Regulatory compliance issues
- Incorrect asset values, which impair business decision-making

Figure 4.17 shows the Project Cost Overview app (ID F6991). It helps companies track the planned committed and actual costs of a given project, which in turn helps them make decisions on when to capitalize the costs into a fixed asset.

ID	Name	Plan Cat. 2 Costs in ...	Plan Cat. 1 Costs i...	Commitments in Glob...	Actual Costs in Global ...	Variance (Plan Cat. 1 - Act...
1710-INV-2020-10	Capital Investment Project P23	0,00 USD	0,00 USD	0,00 USD	130,00 USD	-130,00 USD
1710-INV-2020-10	Erection of New Plant p23	0,00 USD	0,00 USD	0,00 USD	130,00 USD	-130,00 USD

Figure 4.17: Project Cost Report

Given the importance of this process step, let's walk through a few best practices for capitalization in SAP S/4HANA:

- **Start with clean data**

Confirm that all costs relevant to the project (goods receipts, invoices, time sheets, and overhead allocations) are posted completely. Once you have done this, reconcile budgets versus actuals to spot anomalies. We would also advise you to validate that operational confirmations (like project milestones) align with accounting cutoffs.

- **Use AuC where needed**

For multiperiod or staged projects, use AuC to collect costs until the asset is ready for use. You should also define clear investment profiles that govern when AuC transfers to a final asset.

- **Automate settlement**

Configure automatic settlement rules to move costs from WBS or internal orders to AuC and from AuC to final assets (as already mentioned). You can run test settlements to ensure correct receivers and cost elements.

- **Coordinate finance and operations**

Collaborate with project managers, procurement teams, and site engineers to confirm asset readiness.

- **Perform periodic capitalization**

Capitalize large, distinct asset components progressively (e.g., perform partial capitalization for modular installations) if business rules allow.

- **Implement internal controls**

Maintain clear audit trails for approvals for capitalization, supporting documentation for incurred costs, and alignment with internal and external audit requirements.

SAP S/4HANA fundamentally changes the way organizations approach fixed-asset capitalization, not just through improved system speed but by helping them rethink how information flows among finance, projects, and operations. One of the most transformative changes

in SAP S/4HANA is the introduction of the Universal Journal—table **ACDOCA**— which merges financial accounting and controlling data into a single source of truth. This innovation removes the need for complex reconciliations among different ledgers and guarantees that the values transferred during settlement are always accurate and immediately visible. This means that asset accounting teams can trust that any costs flowing from projects or internal orders to AuCs and ultimately to final fixed assets are fully aligned with real-time project execution.

Equally important is the shift toward a much more intuitive user experience that's enabled by SAP Fiori. In the past, capitalizing assets often meant working through a web of transaction codes that required deep technical knowledge. Now, accountants, project managers, and asset specialists can use clear, role-based SAP Fiori apps that guide them step-by-step through tasks like creating asset master data, reviewing settlement rules, and performing settlements. For example, an accountant who is responsible for capital projects can navigate directly to settlement apps like **Manage Settlement Rules – Projects** without jumping across modules. That makes it far easier for the accountant to check whether all costs are captured, settlement rules are in place, and assets are ready to go live on the balance sheet.

Figure 4.18 shows an example of an internal order that has had its settlement rules set to have a fixed asset (**FXA**) as a receiver.

The screenshot displays the SAP Fiori 'Manage Settlement Rules - Internal Orders' application. On the left, a list of settlement rules is shown, with filters for 'Standard' and 'Controlling Area'. The main area shows the details for a specific internal order, **1000023**. The order type is **Y600 (Internal Order: Investment)** and the settlement profile is **YB00AI (Settlement assets under const.)**. The description is empty. Below the order details, there are tabs for 'Distribution Rules', 'Settlement Parameters', and 'Sender Details'. The 'Receivers (1)' section is expanded, showing a table with one entry:

Number	Account Assignment Type	Receiver
1	FXA (Asset)	40000002-0

Figure 4.18: Manage Settlement Rules – Orders

Beyond usability, SAP S/4HANA's embedded analytics bring real intelligence to the capitalization process. Instead of waiting for period-end reports or manually checking project statuses, teams can monitor work-in-progress balances in real time. The system can highlight when costs sit in AuCs for too long or when an unusual posting might distort asset values. This proactive approach helps teams act quickly, thus reducing the risk of missed capitalization deadlines or audit findings later.

Another key benefit of SAP S/4HANA is how it supports continuous closing. By breaking down the barriers between operational and financial data, it can help organizations run settlements more frequently and with greater confidence. For example, companies no longer

have to wait until month-end to find out that a project milestone was missed or that a cost center was misassigned. Instead, they can leverage real-time validations and settlement simulations to ensure that only truly capitalizable costs flow through to the fixed-asset ledger. We'll discuss continuous closing concepts in more detail in Chapter 10.

Finally, these innovations don't just simplify the work for finance and project teams—they also enhance governance. Automated settlement rule strategies, combined with audit-friendly workflows and transparent approval logs, reduce the manual effort required to keep capitalization processes compliant with internal policies and external standards like IFRS and GAAP. For many organizations, this means less time spent cleaning up errors at year-end and more time focusing on strategic asset management.

Figure 4.19 shows the typical data that a user needs to enter for settlement of an internal order to occur. Note that the **Test Run** box is checked, which is a best practice we've already discussed.

The screenshot displays the SAP 'Actual Settlement: Order' configuration screen. At the top, the SAP logo and title are visible. Below the title, there is a 'Menu' dropdown set to 'Settlement Rule'. The 'Controlling Area' is set to 'A000', and the 'Order' field contains '1000023'. The 'Parameters' section includes 'Settlement Period' (12), 'Fiscal Year' (2024), 'Processing Type' (Automatic), 'Posting Period' (empty), and 'Asset Value Date' (empty). The 'Processing Options' section at the bottom has two checked checkboxes: 'Test Run' and 'Check Trans. Data'.

Figure 4.19: Actual Settlement – Order

All in all, SAP S/4HANA turns capitalization from a periodic, often stressful task into a more fluid and transparent process. It lets teams validate, settle, and capitalize costs continuously, with SAP Fiori apps and embedded analytics keeping everyone informed and accountable. The results are better control over capital expenditures, more reliable financial statements, and a stronger foundation for making informed investment decisions in the future.

Having discussed the importance of this process and the best practices and SAP S/4HANA innovations, we would also like to share some lessons we have learned:

■ Upfront design saves downstream pain

Companies often underestimate the importance of robust project structures and investment profiles. Get these right early—clearly define which costs are capitalizable and which are expensed.

- **Automate but validate**

Automatic AuC creation and settlement rules reduce manual effort, but don't assume they're always perfect. Use test runs and logs to catch errors before they hit the books.

- **Avoid cost bottlenecks**

Costs stuck in AuC for too long may signal issues like incomplete commissioning or missing approvals. Use embedded analytics to monitor aging AuCs.

- **Master data quality is everything**

Consistent asset classes, useful life, cost center assignments, and tax areas prevent rework and re-postings later.

- **Communicate among functions**

Align finance, procurement, and operations to ensure everyone knows when an asset is "ready for use"—which is the moment that triggers capitalization.

- **Train and empower users**

With SAP Fiori, the process is simpler, but users still need training on roles, approval flows, and exceptions handling. Provide clear Standard Operating Procedures (SOPs) and dashboards.

In SAP S/4HANA, the capitalization process is no longer an opaque, back-office activity—it's an integrated, transparent process enabled by real-time data, smart automation, and user-friendly SAP Fiori apps. Done right, it supports compliance, audit readiness, accurate P&L impact, and confident asset management for the entire lifecycle.

4.3.4 Depreciation

Depreciation is one of the most fundamental processes in fixed-asset management, as it ensures that the cost of an asset is systematically spread over the periods in which it generates economic benefits. From a business perspective, this is about matching costs with revenues so that the financial statements accurately reflect the consumption of assets over time.

Imagine a manufacturing company that invests \$5 million in a new production line. Instead of expensing this amount all at once, which would distort the company's profit and loss for that year, it capitalizes the cost and then depreciates it over, say, ten years. Each month or year, a portion of the asset's value flows to the income statement as a depreciation expense, and the remaining net book value is reported on the balance sheet. This ensures that the company's financial results align with the actual wear and tear on its physical resources.

Different industries have diverse depreciation needs. Here are some examples:

- A logistics company with a fleet of delivery vehicles must manage the different useful lives and depreciation rates of trucks, trailers, and electric vans.
- An energy utility building a power plant may use component-based depreciation—meaning different parts of the asset (turbines, control systems, and structures) will depreciate over different useful lives.
- A software company capitalizing development costs for an internal system will use straight-line amortization over the estimated benefit period.

Getting depreciation right is not just an accounting formality—it affects net income, tax obligations, asset valuations, and investment decisions. Errors or delays can lead to misstatements, failed audits, and poor capital planning. This is why well-controlled, transparent, and auditable depreciation is critical for any capital-intensive organization.

Figure 4.20 shows the accounting entries happening each month. For this example, we considered a simple scenario in which the asset was capitalized with the value of 20,000 in a previous step. Then, each month, the depreciation will credit 250 from the balance sheet and debit the P&L under the accumulated depreciation.

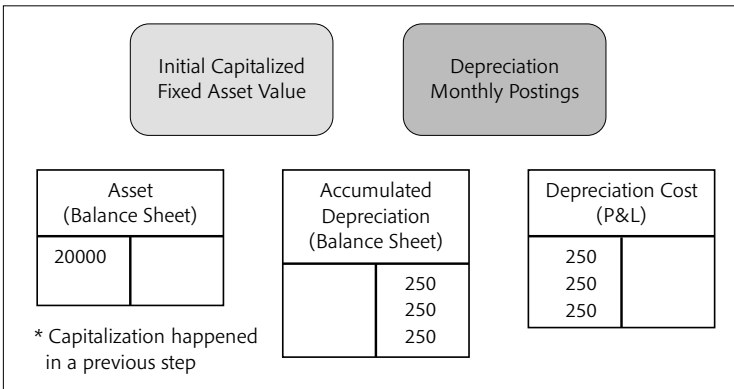


Figure 4.20: Standard Monthly Depreciation Posting

Effective depreciation management starts well before the depreciation run itself. Here are some key practices leading organizations adopt:

■ Establish clear asset master data

The foundation for accurate depreciation is having complete and correct asset master data (refer to Chapter 2, Section 2.2.5). This includes the correct asset class, useful life, depreciation key (e.g., straight-line, declining balance), and start date of depreciation. For instance, an asset should only begin depreciating when it is ready for use— not simply when it is purchased. Failing to align these dates leads to misstated costs and audit findings.

■ Leverage multiple depreciation areas

Many companies use multiple depreciation areas to meet parallel reporting requirements, such as one for local GAAP, one for group IFRS, and one for tax reporting. Each area can have different depreciation methods and useful lives to comply with varying rules. For example, tax regulations may allow accelerated depreciation for certain assets to reduce taxable income, while the financial books may use a more conservative straight-line approach.

Note that with the introduction of *parallel accounting* through ledgers and the new asset accounting in SAP S/4HANA, the number of ledgers has a direct relationship to the number of minimum depreciation areas to be configured. The rule is that we should configure at least as many depreciation areas as the ledgers times the main currencies

(company code currency, group currency, and [potentially] an index-based currency or hard currency).

For example, the configuration in Figure 4.21 shows the setup of depreciation areas for a US chart of depreciation where there are two ledgers: one for US GAAP and another for IFRS. As one can see, the first four depreciation areas come from the fact that there are two ledgers and two currencies. The remaining depreciation areas that start with a 9 are mainly for tax and reporting purposes.

Ar.	Name of Depreciation Area	Real	Trgt Group	Acc.Princ.	G/L
<input type="checkbox"/> 1	Book Depreciation	<input checked="" type="checkbox"/>	0L	USAP	1 Area Posts in Real Time
<input type="checkbox"/> 31	Local GAAP in Group currency	<input checked="" type="checkbox"/>	0L	USAP	0 Area Does Not Post
<input type="checkbox"/> 32	IFRS in local currency	<input checked="" type="checkbox"/>	2L	IFRS	1 Area Posts in Real Time
<input type="checkbox"/> 33	IFRS in group currency	<input checked="" type="checkbox"/>	2L	IFRS	0 Area Does Not Post
<input type="checkbox"/> 90	Federal Tax ACRS/MACRS	<input checked="" type="checkbox"/>	0L	USAP	0 Area Does Not Post
<input type="checkbox"/> 91	Alternative Minimum Tax	<input checked="" type="checkbox"/>	0L	USAP	0 Area Does Not Post
<input type="checkbox"/> 92	Adjusted Current Earnings	<input checked="" type="checkbox"/>	0L	USAP	0 Area Does Not Post

Figure 4.21: Defining Depreciation Areas

■ Perform periodic validations

Regularly review assets for changes that might affect depreciation, such as extensions to useful life, impairments, or retirements. For example, a piece of equipment might be refurbished and its useful life extended by three years. In SAP S/4HANA, you should perform these adjustments promptly to prevent depreciation errors. The SAP Fiori app that's best suited for this is the Manage Fixed Assets app.

■ Use test runs for predictability

Before running depreciation in the live environment, you should simulate depreciation runs and review planned postings. This ensures that there are no unexpected results, such as assets with no depreciation due to missing parameters or incorrect settings. The analysis of the planned postings is accessible straight after the test depreciation run is executed, and it's accessible from the Depreciation Posting Run job template within the Schedule Asset Accounting Jobs app (ID F1914).

■ Tie into financial close

Depreciation is a key milestone in the financial close calendar. It is good practice to automate the depreciation run as part of the period-end process chain so that depreciation postings flow seamlessly into general ledger balances and financial reporting. Refer back to Figure 4.6, where you can automate this step together with many others in period-end closing.

■ Maintain audit trails

Proper documentation, including asset history sheets, log files of depreciation runs, and adjustment postings, provides a robust audit trail and supports compliance with internal and external audit requirements.

SAP S/4HANA introduces powerful innovations that make depreciation more transparent, reliable, and user-friendly than in legacy SAP ERP systems.

One major improvement is the Universal Journal (table **ACDOCA**), which integrates asset accounting directly with the general ledger and controlling. This means depreciation postings update financials and management reporting in real time, with no reconciliation needed between subledgers. For companies managing large volumes of assets, this eliminates delays and ensures consistent figures for balance sheets and profit and loss statements.

Another key enhancement is the *accelerated depreciation run*. In SAP S/4HANA, you can execute depreciation runs faster because the system processes only the *delta*—that is, any changes since the last run—instead of recalculating everything from scratch. This not only speeds up period-end closing but also allows for more frequent test runs during the month.

As shown in Figure 4.22, you can post depreciation using the Depreciation Posting Run job template within the Schedule Asset Accounting Jobs app. It includes a simulation mode, detailed logs, and status monitoring. As mentioned, running it in test mode is advisable because it gives the user details regarding the postings that would eventually be done. It will also clearly identify any errors coming from fixed-asset master data.

Figure 4.22: Post Depreciation Run

SAP Fiori-based applications have transformed how end users interact with depreciation tasks. For example, the Depreciation Posting Run job template within the Schedule Asset Accounting Jobs app guides accountants step-by-step through selecting company codes, fiscal periods, and depreciation areas. It provides simulation options to check results before posting, with intuitive status messages and logs that pinpoint any issues. For asset accountants, this is far less error-prone than navigating traditional transaction codes.

Embedded analytics further enrich the depreciation process. Accountants can access real-time depreciation forecasts; analyze trends by asset class, company code, or business area; and drill down to individual asset postings if variances occur. If an asset's book value suddenly spikes or drops, accountants can investigate immediately without waiting for offline reports.

These capabilities support a continuous-closing mindset. Instead of viewing depreciation as a single end-of-month event, organizations can monitor it continuously, adjusting for asset changes as they happen—which supports better cash flow forecasting, tax planning, and strategic asset management.

As shown in Figure 4.23, the Asset Balances app (ID F1617) provides a comprehensive overview of net book values, accumulated depreciation, and remaining useful life.

The screenshot shows the SAP Asset Balances app interface. At the top, there is a navigation bar with the SAP logo, the app name 'Asset Balances', and a search bar. Below the navigation bar, there is a filter bar indicating 'Filtered By (7): Key Figure Group, Company Code, Ledger, Depreciation Area, Fisc. Year of Ledger, ...'. The main content area is titled 'Data Analysis' and contains a table with the following data:

		000002-0010700500	000003-0010700502
		Ordinary Depreciation at Reporting Date, Posted	Ordinary Depreciation at Reporting Date, to be Posted
A. Asset Class		Balance Amount	Balance Amount
2000	Machinery Equipment	\$ -3,00	\$ -18,00
1 Z2000	Z2000	\$ -9,00	\$ -100,00
	Total	\$ -12,00	\$ -118,00
3100	Vehicles	\$ -2,00	\$ -220,00
	Total	\$ -2,00	\$ -220,00
3300	Office Equipment		\$ -4.000,00
	Total		\$ -4.000,00
4000	AuC		
1 A 4001	Investment Measure		
	Total		
5000	LVA	\$ -110,00	

Figure 4.23: Asset Balances App

4.3.5 Reviewing and Adjusting Master Data

Asset master data is the foundation of the entire fixed-asset lifecycle in SAP. It governs how assets are capitalized, depreciated, reported, and settled. Master data includes key information such as asset class, cost center, useful life, depreciation keys, and accounting areas—all

of which directly impact financial reporting, compliance, and audit readiness. We discussed asset master data in Chapter 2, Section 2.2.5; in this section, we'll discuss the review of that master data as part of the period-end close process for fixed assets.

In practice, having accurate master data ensures that an asset is classified properly, depreciated at the correct rate, and accounted for according to internal policies and external standards like IFRS or GAAP. Errors in this data can lead to misstatements, incorrect depreciation, and regulatory penalties.

For example, consider a utility company that capitalizes a new turbine as part of a power plant project. If the useful life is set to five years instead of twenty, the system will overstate depreciation, which distorts the company's profit and undervalues the asset on the balance sheet. Similarly, if an asset is wrongly assigned to an operational cost center instead of a capital investment project, it could be incorrectly expensed rather than capitalized, which would affect both cost reporting and tax treatment.

Even more routine issues, such as missing serial numbers and incorrect location codes, can impact downstream processes like maintenance scheduling, asset tracking, and insurance coverage. That's why reviewing and maintaining accurate asset master data is not just a technical task—it's a strategic financial control.

The following process is paramount to the accurate handling of the fixed-asset lifecycle. Follow these steps:

1. Access the SAP Fiori launchpad.
2. Review asset master data fields.
3. Identify discrepancies or outdated information.
4. Save changes and trigger workflow approvals if you need to.
5. Edit and update master data.

To maintain the integrity of fixed-asset accounting and reporting, companies should adopt a structured, policy-driven approach to managing asset master data. We recommend following these best practices:

■ **Establish clear ownership and governance**

Assign responsibility for master data maintenance to designated roles, such as asset accountants or master data stewards. These roles ensure consistency, compliance with capitalization policies, and coordination among finance, procurement, and project teams.

■ **Set up standardized asset classes and number ranges**

Use well-defined asset classes (e.g., IT equipment, vehicles, buildings) to control default settings like depreciation keys and cost center assignments. This reduces manual input errors and improves reporting clarity.

■ **Implement mandatory fields and validations**

Configure the system to require critical data fields, such as asset location, inventory number, and responsible cost center. Validation rules help prevent incomplete or inconsistent master records.

As shown in Figure 4.24, this configuration step (accessed through Transaction VC_T082G_10) allows a detailed definition of what master data fields are required, optional, and suppressed for each asset class. This increases the controls to be put in place.

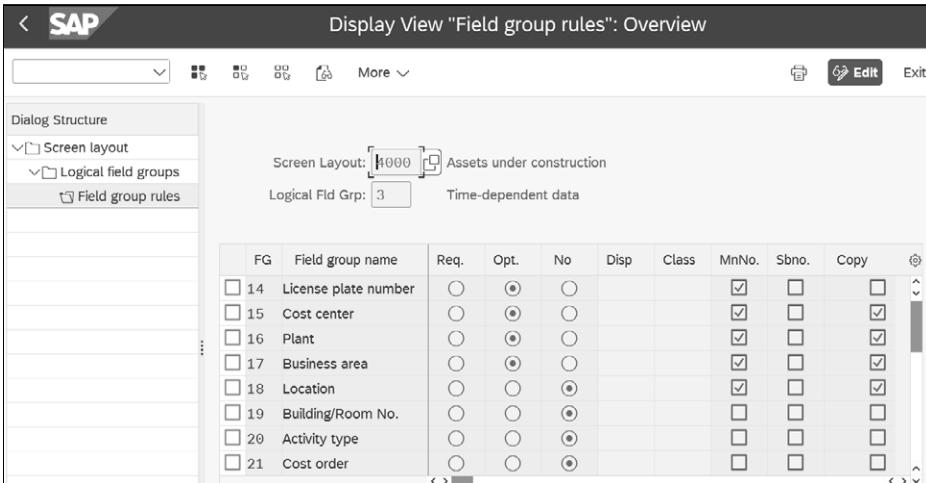


Figure 4.24: Screen Layout for Asset Master Data

■ Conduct regular master data reviews

Integrate periodic reviews into the financial close process to validate asset data. Checking for assets with incorrect useful lives, assets that haven't moved in years, and discrepancies between book and physical location.

■ Control adjustments through change logs and workflows

Track all master data changes using SAP's built-in change history features. For high-impact fields (like asset class or depreciation key), consider implementing approval workflows before updates take effect. Figure 4.25 highlights how workflows can increase the governance and control of these changes.

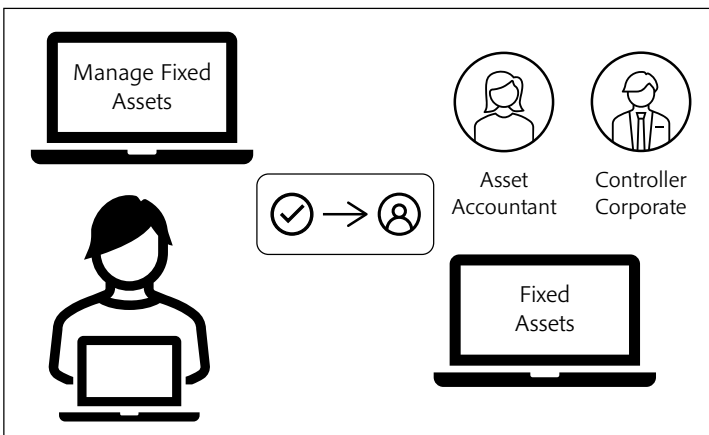


Figure 4.25: Usage of Workflows in Fixed Asset Master Data Changes

■ Use templates for high-volume asset creation

Industries with frequent asset acquisition (like retail or telecom) should leverage templates or mass upload tools to streamline the process while preserving consistency.

■ Collaborate among teams

Ensure alignment among fixed asset teams, project controllers, procurement, and IT to synchronize asset data with WBS elements, internal orders, and vendor information.

SAP S/4HANA significantly enhances asset master data management by simplifying the data model and delivering a more intuitive user experience. One of the major improvements is the harmonization of asset accounting with the Universal Journal (table ACDOCA), which we have already touched upon in previous chapters. This removes redundancy between financial and controlling ledgers and ensures that updates to master data immediately affect all relevant reporting dimensions.

Another key innovation is the centralization of asset master data maintenance in a single, role-based SAP Fiori interface. Previously, asset data was fragmented among multiple transaction codes (AS01, AS02, and AS03). Now, with the Manage Fixed Assets (New) app (ID F3425), users can review, edit, and validate asset data in one place, with enhanced visibility and fewer errors.

Figure 4.26 shows the central Manage Fixed Assets (New) app for creating, editing, and reviewing asset master records. It offers search, filter, and mass update capabilities, and it provides a 360-degree view of each asset, including related postings, depreciation data, and assignments.

Asset Number	Asset Description	Company Code	Asset Class
10000000-0	Real Estate Contract_21P	1710 Company Code 1710	6210 (FL Land)
10000001-0	COB GA P23 Testing	1710 Company Code 1710	0310 (OL Land)
10000002-0	Test	1710 Company Code 1710	6210 (FL Land)
10000003-0	Test	1710 Company Code 1710	6210 (FL Land)
10000004-0	asset creation testing	1710 Company Code 1710	1100 (Buildings)
10000004-1	asset creation testing	1710 Company Code 1710	1100 (Buildings)
10000005-0	test	1710 Company Code 1710	1100 (Buildings)
20000000-0	GA 2023 Contract	1710 Company Code 1710	2000 (Machinery Equipment)

Figure 4.26: Manage Fixed Assets App

Figure 4.27 shows the asset master data, which is used primarily for viewing master data without making changes. This app is ideal for internal control reviews and audits.

The screenshot displays the SAP Fiori 'Display Asset: Master data' application. The header shows the SAP logo, the title 'Display Asset: Master data', and navigation options like 'All', 'Search', and 'Fid'. Below the header, there are input fields for 'Asset: 20000013', '0', 'Asset Pump', 'Class: 2000', 'Machinery Equipment', and 'Company Code: 1710'. A 'Menu' dropdown is set to 'Services for Object'. The main content area has tabs for 'General', 'Time-Dependent', 'Origin', and 'Deprec. Areas', with 'General' selected. Under 'General Data', the following information is visible: Description: Asset Pump; Asset Main No. Text: Cooling Water Circulation Pump Asset; Account Determ.: 160020 Machinery and Equipment; Serial number: (empty); Inventory Number: 134568.

Figure 4.27: Display Asset Master Data

SAP Fiori also introduces embedded analytics, which allow asset accountants to quickly identify anomalies such as assets that are missing depreciation keys or are assigned to outdated cost centers. These insights can trigger proactive corrections before they impact financial reporting. We'll discuss embedded analytics in more detail in Section 4.3.6.

Additionally, the integration with Project System and procurement is much tighter in SAP S/4HANA. For example, if an investment project creates an asset automatically through an AuC, the master data can inherit values like the asset class, responsible department, and WBS element directly from the project structure. This reduces duplication and increases consistency among modules.

To conclude, reviewing and maintaining asset master data is not just an operational task—it's a key financial control that directly affects the accuracy of your depreciation, reporting, and compliance processes. In SAP S/4HANA, the process is dramatically simplified and improved through innovations like the Universal Journal, role-based SAP Fiori apps, embedded analytics, and tighter project integration.

By establishing strong governance, leveraging automation, and using the latest SAP Fiori tools, finance teams can ensure that fixed assets are managed accurately from acquisition to retirement. This reduces risk, increases efficiency, and enables better decision-making across the enterprise.

4.3.6 Reporting and Analysis

Fixed assets are among the most valuable resources in an enterprise. Whether they be manufacturing equipment, office buildings, fleet vehicles, or IT infrastructure, these assets not

only represent a substantial portion of a company's capital investment but also directly influence operating capacity and long-term profitability.

Effective fixed-asset reporting and analysis are essential for multiple business purposes:

- Ensuring compliance with internal and external audit requirements
- Monitoring asset utilization, lifecycles, and impairment risks
- Making informed decisions on capital expenditures, replacements, and disposals
- Meeting statutory reporting requirements under different accounting principles (e.g., IFRS, GAAP) and tax laws
- Managing financial close activities through accurate and timely depreciation and balance sheet reporting

Consider a multinational logistics firm that manages thousands of trucks in dozens of locations. Without clear, timely reporting on the net book value, depreciation trends, and lifecycle status of each asset, it becomes nearly impossible to optimize fleet renewal, track operational costs, and respond to regulatory audits.

Or take the case of a public utility managing infrastructure across a thirty-year horizon. Long-term planning depends on visibility into accumulated depreciation, remaining useful life, and potential impairment triggers. Poor reporting will result in bad capital planning and possible audit qualifications.

Thus, fixed-asset reporting is not just backward looking; it is also a strategic tool for proactive planning and compliance.

Figure 4.28 illustrates the importance of this task, not only for fixed-assets accountants but also for upper management.

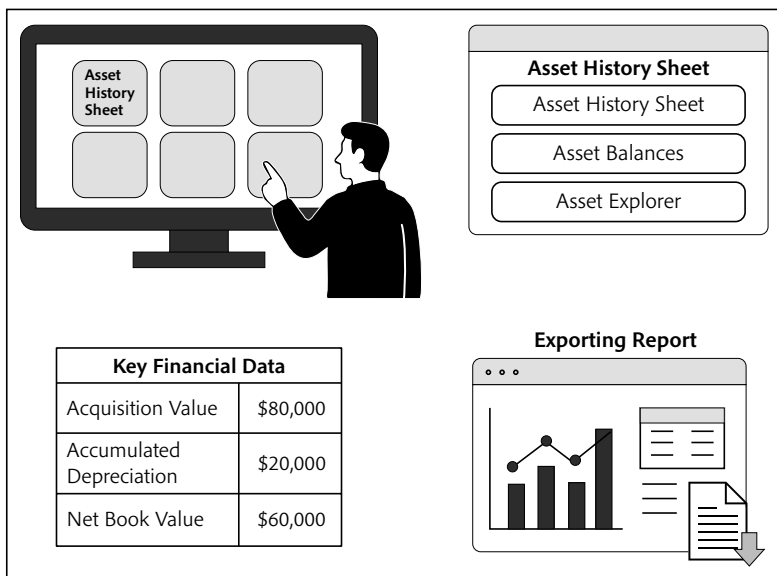


Figure 4.28: Fixed Asset Reporting in SAP S/4HANA

To ensure transparency, accuracy, and actionable insights, companies must approach fixed-asset reporting not just as a compliance activity but also as a critical business process. One of the first steps in achieving this is establishing a centralized reporting framework. Rather than relying on scattered reports or locally maintained spreadsheets, organizations should implement standardized reporting structures that apply consistently to all legal entities and business units. This consistency is key to enabling comparative analysis, supporting internal audits, and reducing the reconciliation workload during the financial close.

Granularity is also essential in fixed asset reporting. Segmenting reports by asset class, cost center, geographical location, or related project allows decision-makers to gain a deeper understanding of how assets are utilized across the organization. For example, distinguishing between IT equipment and plant machinery helps identify different depreciation patterns, usage levels, and replacement needs. Similarly, assigning assets to specific cost centers or WBS elements provides clearer visibility into which departments are capital intensive and which assets may require attention due to underutilization or obsolescence.

Organizations should also tightly integrate fixed-asset reporting with budgeting and planning. Forward-looking organizations use asset data not only to monitor historical activity but also to support future investment decisions. Reports showing asset aging or declining book values can feed directly into capital expenditure planning cycles, which helps teams prioritize replacements, upgrades, and disposals in a data-driven way.

Another critical practice is aligning reporting efforts with periodic physical reviews and asset reconciliations. Organizations benefit from embedding fixed-asset reviews into quarterly or annual processes and so they can compare reported data with actual asset existence and condition. These efforts help identify *ghost assets*—those recorded in the system but no longer in use—and ensure the ongoing accuracy of the fixed-asset register.

Finally, modern asset reporting must emphasize speed and agility. Organizations that continue to rely on batch-driven legacy reports often face delays during month-end or year-end close, so finance teams should adopt real-time dashboards and exception-based monitoring tools. These solutions not only speed up the reporting process but also improve its reliability, ensuring that any inconsistencies or anomalies in asset data are caught and corrected well before they affect financial statements.

By embedding these practices into their core finance operations, organizations lay the foundation for fixed-asset reporting that is timely, strategic, and resilient. This turns what was once a compliance obligation into a powerful tool for capital management and business insight.

Figure 4.29 shows the Asset Explorer app (ID AW01N), which allows you to track planned, posted, and cumulative depreciation per asset and quickly spot anomalies (such as over-depreciated assets and misaligned useful lives). You have access to each depreciation area on the left-hand side of the screen, and there's also information about planned values (those not yet posted), posted values, comparisons across fiscal years, and other parameters. The app also lets you drill down to the financial transactions that have had an impact on the asset's value.

The screenshot displays the SAP Asset Explorer interface for asset 1710-30000000/0000. The left sidebar shows a tree view of depreciation areas under 'USAP USA GAAP', including '01 Book Depreciation', '31 Local GAAP in Group currency', '90 Federal Tax ACRS/MACRS', '91 Alternative Minimum Tax', and '92 Adjusted Current Earnings'. Below this, 'Objects related to asset' are listed, such as 'Plant & Maint (US) A000 17101701', 'G/L Account Office Equipment 1710 16005000', and 'Profit Center Shared Services A000 YB600'. The main area shows 'Planned values Book Depreciation' with a table of values and a 'Transactions' table below it.

Value	Fiscal year start	Change	Year-end	Crcy
APC transactions		120.000,00	120.000,00	USD
Revaluation				USD
Acquisition value		120.000,00	120.000,00	USD
Ordinary deprec.		4.000,00-	4.000,00-	USD
Unplanned dep.				USD
Write-up				USD

Asset Value Date	Amount Posted	TType	Transaction Type Name	Crcy
01.09.2024	120.000,00	100	External asset acquisition	USD

Figure 4.29: Asset Explorer App

Having established the best practices, SAP S/4HANA revolutionizes fixed-asset reporting by embedding it directly into the Universal Journal (table ACDOCA). This single table architecture allows for real-time, multidimensional analysis that spans general ledger, controlling, and asset accounting—eliminating the reconciliation hassles that are common in legacy systems. Here are the features that make SAP S/4HANA a game changer:

■ Real-time drilldown reporting

Because all fixed-asset financial data now resides in table ACDOCA, you can drill down from summary figures to individual asset transactions in real time. This dramatically improves insight and transparency.

For example, you can move from a high-level net book value report to individual acquisition and depreciation entries (including the original document number, depreciation key, and asset details) with just a few clicks.

■ Embedded analytics

SAP S/4HANA provides embedded SAP analytics that allow users to run reports directly in SAP Fiori without needing a separate business warehouse. Figure 4.30 shows the dynamically updated dashboard in the Asset Accounting Overview app, with drilldown capability into several reports and KPIs. You can build asset dashboards with KPIs like these:

- Top 10 depreciating asset classes
- Assets nearing retirement
- CapEx versus budget by department
- Net book value by business unit

These dashboards are updated in real time, and you can share them with finance leadership, auditors, and operations teams.

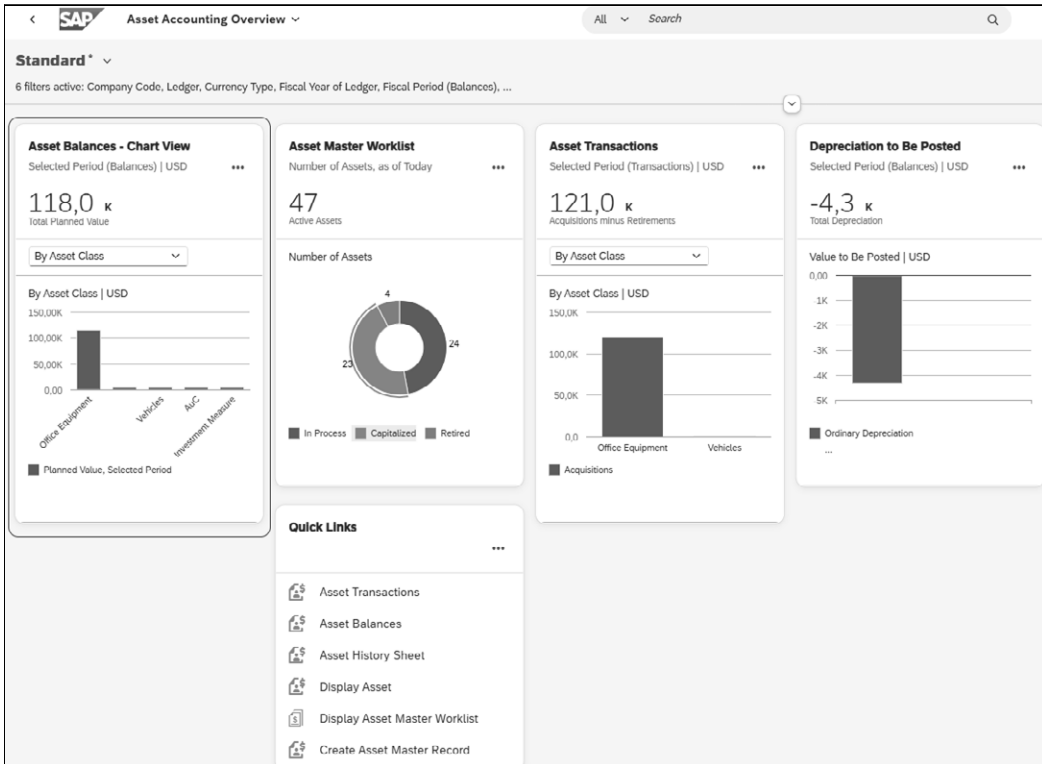


Figure 4.30: Asset Accounting Overview App

■ Flexible reporting dimensions

With extensibility and dimensions in table ACDOCA, businesses can analyze fixed-asset performance by using any combination of fields, such as company code, segment, functional area, and WBS element. They can even use custom tags like **Green Assets** and **Tech Infrastructure**.

The Asset Balances app (shown previously in Figure 4.23) shows key figures like acquisition value, accumulated depreciation, and net book value. It is also filterable by company code, cost center, and asset class, and it has drilldown functionality you can use to trace balances to the transaction level.

■ Faster period end and compliance

Depreciation values, book values, and accumulated balances are updated immediately after postings. This improves the speed and accuracy of period-end asset reporting and reduces the risk of reconciliation errors.

■ Audit-friendly logs and asset histories

All changes to master data and transactions are logged and available for audit, and time-stamped change histories are available through SAP Fiori apps. This satisfies regulatory and internal audit requirements.

Figure 4.31 shows the Asset History Sheet app (ID F1615), which displays comprehensive asset movements—acquisitions, retirements, transfers, and depreciation—for a fiscal year. It is displayed in a standard format that is used for external reporting and auditing. The report is organized with the asset classes on the left-hand side in rows and each of the different types of transactions that affect the value of the assets in columns. This helps you easily understand the history of the asset.

The screenshot shows the SAP Asset History Sheet app interface. At the top, it displays the SAP logo and the title 'Asset History Sheet'. Below the title, there are search and filter options. The main content area shows a table with columns for 'KF Code', 'Asset Class', 'Balance Amount', 'Acquisition, Current Year', and 'Post-Capitaliz'. The table is filtered by (7) Key Figure Group, Company Code, Ledger, Depreciation Area, Fisc. Year of Ledger, ...

KF Code		000001-0000700110	000002-0009790110	000005-0005
Asset Class		APC FY Start	Acquisition, Current Year	Post-Capitaliz
A...	Asset Class	Balance Amount	Balance Amount	Balance Amou
1	2000 Machinery Equipment	\$ 90,00	\$ 0,00	
	Z2000 Z2000	\$ 1.000,00	\$ 0,00	
	Total	\$ 1.090,00	\$ 0,00	
1	3100 Vehicles	\$ 100,00	\$ 1.000,00	
	Total	\$ 100,00	\$ 1.000,00	
1	3300 Office Equipment	\$ 0,00	\$ 120.000,00	
	Total	\$ 0,00	\$ 120.000,00	
1	4000 AuC	\$ 100,00	\$ 0,00	
1	4001 Investment Measure	\$ 100,00	\$ 0,00	
	Total	\$ 200,00	\$ 0,00	
	5000 LVA	\$ 110,00	\$ 0,00	

Figure 4.31: Asset History Sheet

Fixed-asset reporting and analysis in SAP S/4HANA is no longer just a back-office, compliance-oriented task. With the power of real-time analytics, embedded reporting, and a simplified data model, it becomes a value driver for planning, transparency, and financial performance.

Companies can now monitor their capital investments in real time, adjust strategies based on asset utilization trends, and ensure clean audit trails with ease. When paired with best-in-class governance and proactive data management, SAP S/4HANA and SAP Fiori apps offer a robust, user-friendly platform to elevate fixed-asset reporting from a manual process to a strategic capability.

4.4 Intercompany Transaction Management

Intercompany transactions play a foundational role in the business models of many corporate groups. Thanks to intercompany transactions, you can enable the flow of goods and services among entities within a group, which opens up opportunities for achieving various business benefits. For example, it enables specialization within a group, more efficient allocation of resources, and economies of scale. The efficiency of intercompany supply

chains, related operations, and transactional processing is critical to the success of many businesses.

Securing the completeness and reconciliation of intercompany transactions within a corporate group is an important element of the financial close process. In this section, we'll discuss the typical challenges that corporate groups experience in their intercompany transactions and how SAP addresses these challenges. We'll showcase available solutions for not only managing intercompany transactions but also reconciling them, and we'll explain how these solutions can help to reduce manual workloads and risks associated with group financial close.

4.4.1 Intercompany Transaction Challenges

Challenges related to intercompany transactions are common pain points of large corporate groups. We can identify several typical areas in which we often see challenges related to this process:

- **Completeness of data and reconciliation of data**

Intercompany transactions are often processed in large volumes, and this processing involves different entities, teams, and systems. To keep financial close accurate, it is critical to make sure that all intercompany transactions have been completely posted in all the involved entities and that all key characteristics are in sync among different involved parties and their transactional and reporting systems.

- **Valuation and transfer pricing**

This topic is always an important factor in the preparation of intercompany transactions. Proper valuation of intercompany transactions according to local and group accounting and tax principles is an important element of compliant accounting evidence and a key step in financial close activities. One of the latest solutions from SAP, *value chain analysis*, provides extensive capabilities that allow you to monitor and analyze complex intercompany transaction chains according to various valuation principles. We describe value chain analysis and related concepts in more detail in Chapter 10, Section 10.2. Adherence to transfer pricing and valuation regulations is also a key element in compliance requirements, as such regulations significantly impact corporate income tax liability and statutory reporting in different countries.

- **Transfer of control and revenue recognition**

In many cases, it is difficult to properly recognize the moment of transfer of control over inventory in an intercompany transaction and reflect it in relevant systems. This in turn can lead to problems with proper recognition of revenues related to intercompany transactions.

- **Insufficient automation**

Additional complexities in intercompany transactions can be related to the involvement of many transaction processing systems. This may require companies to invest effort in integrating these systems and providing the required level of automation. Further challenges can be related to complex transaction chains going across many entities in many

countries or complex tax-efficient supply chain models, in which it is often difficult to reflect proper business flows and all required characteristics (e.g., tax, customs, transfer prices, transfer of ownership) using legacy tools and applications. This can end up forcing companies to manually or semimanually manage such transactions, such as by manually determining tax rates and calculating transfer prices.

■ **Compliance requirements**

Finally, tax determinations in complex intercompany transactions can be much more difficult, and in many cases, we need to take into account both current and preceding transactions, transfer of ownership implications, etc. We'll discuss the tax and compliance aspects of financial close in more detail in Chapter 9. On top of taxes, the remaining key focus areas we can mention here are customs and transfer pricing. Intercompany transactions typically attract a lot of attention from auditors and tax authorities.

These challenges impact the efficiency of intercompany supply chains and the accuracy of related reporting. Before we showcase SAP solutions that address these challenges, we'll discuss transfer pricing and integration with sales and procurement.

4.4.2 Transfer Pricing and Integration with Sales and Procurement

Operational transfer pricing focuses on defining prices to enable affiliated companies to perform trade transactions in which goods or services are transferred within the organization across different areas, either between legal entities (company codes) or between different management responsibility areas (like profit centers and segments). There are several transfer pricing models, like *cost plus* (which is based on adding a markup to the total cost of producing goods or delivering services), *resale minus* (which is based on the resale price of a product or service sold to a third party, adjusted by subtracting the gross margin), and transfer prices based on industry benchmarks (which are less common). Transfer pricing is used in intercompany transactions during the course of a fiscal period, and it requires you to perform certain activities (e.g., transfer price adjustments) at the end of the period during the financial close process.

There are two key components in SAP S/4HANA that are required for operational transfer pricing management:

- Transfer prices
- Material ledger

The material ledger has been significantly improved in SAP S/4HANA, and it is fully integrated into the Universal Journal. Activating the material ledger is mandatory in SAP S/4HANA. It offers multicurrency capabilities, while in the past, the number of parallel material ledger currencies was limited to three. This limitation has been eliminated with the introduction of universal parallel accounting, which supports up to ten currencies across accounting processes in the material ledger. Standard price and moving-average price are available in the material ledger as the possible inventory valuation methods.

You perform the basic setup of the material ledger in three steps:

1. Activate the material ledger for the valuation area (with Transaction OMX1)
2. Define the material ledger type (with Transaction OMX2)
3. Assign a material ledger type to the valuation area (with Transaction OMX3)

You perform the productive start of the material ledger for the relevant plants and valuation areas in Transaction CKMSTART or by following menu path **Accounting** • **Controlling** • **Product Cost Controlling** • **Actual Costing/Material Ledger** • **Environment** • **Production Startup** • **Set Valuation Areas to Productive**. This executes conversion of relevant data and sets the valuation area as productive.

Note

You can check the customizing settings for the material ledger and a given plant by using Transaction CKM9. There, you can verify several settings, including whether the material ledger has been activated for the selected plant, which currencies and valuations are set, what the valuation levels are, which organizational units are assigned to the plant, and which general ledger accounts will be used for postings.

Alternatively, you can check customizing settings for the material ledger and a range of controlling areas and plants by using the FCMLHELP_SHOW_CUSTOMIZING report.

To address group requirements related to transfer pricing in SAP S/4HANA, you need to activate the multiple valuation capabilities that enable up to three valuation views:

- Legal valuation
- Group valuation
- Profit center valuation

Multiple valuations require you to set up specific currencies. The legal valuation must be always managed in company code currency (currency type 10) and is fixed. Parallel valuation views can use multiple dedicated ledgers for each valuation view, or you can set them up in multiple-valuation single-ledger mode, in which you maintain several currency types and valuation views in a single ledger. From the financial close point of view, fiscal year end is a typical moment when you need to prepare reconciliation of the actuals with the planned transfer pricing policies and posting transfer price adjustments in case of variances.

Note

You can find more information on parallel valuations and transfer pricing in SAP S/4HANA in SAP Note 2882025.

Material ledger implementation has several impacts on the financial close process. The main impact is related to actual costing capability, which involves additional period-end closing steps for revaluing materials at their actual cost. Although the material ledger is

obligatory in SAP S/4HANA, the actual costing capability is still optional. You can set the actual costing as productive using Transaction FCML4H_STARTUP.

SAP S/4HANA has delivered several improvements to this process, including combining several material ledger closing steps into one and introducing a new material ledger actual costing cockpit to simplify the material ledger closing process.

With actual costing functionality, you can determine the periodic unit price for each material, which can serve as a more accurate cost basis for transfer pricing. During financial close, you execute the periodic actual costing run with Transaction CKMLCP, as shown in Figure 4.32. It calculates periodic unit prices for the period and updates them in all active valuations, as well as in the material master records. In the next step, during multiple-level price determination, you assign calculated variances to the next higher levels. You can either reevaluate materials or post the calculated amounts to accrual accounts. We'll discuss the material ledger and actual costing from the financial close perspective in Chapter 5, Section 5.1.4.

The screenshot displays the SAP Costing Cockpit interface for 'Actual Costing - Change / Execute'. The top navigation bar includes 'SAP' and 'Costing Cockpit: Actual Costing - Change / Execute'. Below the navigation bar, there are several action buttons: 'Menu', 'Back', 'Create', 'Copy', 'Display <-> Change', 'Collapse Screen to Minimum Size', and 'Costing Run <-> Run Reference'. The main area contains input fields for 'Costing Run:*' (value: TEST), 'Period:*' (value: 10 2025), and 'Application:*' (value: Actual Costing). Below these fields are two expandable sections: 'General Data' and 'Processing'. The 'Processing' section contains a table with the following data:

Flow step	Authorizn	Locked	Parameters	Execute	Log	Mat Stat	Successful	Errors	Still open	Act Stat
Selection						■	5	0	0	■
Preparation	Ⓜ	X				■	5	0	0	■
Settlement	Ⓜ	X				■	5	0	0	■
Post Closing	Ⓜ	X				■	5	0	0	■
Mark Prices							0	0	0	

At the bottom of the interface, there are buttons for 'Job Overview', 'Schedule Manager', 'Results', and a 'Save' button. The 'Save' button is highlighted in dark grey, and there are also 'Continue' and 'Cancel' buttons to its right.

Figure 4.32: Actual Costing Run

On top of these solutions in SAP S/4HANA, you can leverage SAP Profitability and Performance Management, which is a data modeling and reporting tool designed for various scenarios, including sophisticated transfer pricing. Sample operational transfer pricing content in SAP Profitability and Performance Management provides concepts and best practices for modeling, calculation, and reporting of operational transfer pricing. It includes predefined data content and support for follow-up activities like intercompany recharging and tax compliance adjustments that are required for the profit and loss statement for tax purposes. SAP Profitability and Performance Management can also improve the financial close process in areas other than transfer pricing, such as complex allocations and profitability reporting.

Note

You can learn more about SAP Profitability and Performance Management from the *Introducing SAP Profitability and Performance Management (PaPM)* SAP PRESS E-Bite, which was written by Marius Berner and is available at <http://s-prs.co/v613300>.

4.4.3 Classic Intercompany Transactions

One of the most commonly used classic intercompany solutions from SAP is the intercompany sales order process that was previously available in the legacy SAP ERP. It allowed for creation of a sales order with the delivering plant assigned to another company code. It was a relatively basic solution, with certain limitations and constraints.

Typical challenges in the legacy intercompany sales order solution included the following:

- There were no documents like purchase and sales orders in transactions between affiliated companies.
- There was no valuated stock in selling company code (and no inventory movements).
- There were no material ledger postings in selling company code.
- It used IDocs in the replication of intercompany invoices.
- It used intercompany invoices as financial accounting documents only.

In addition, from the financial close point of view, one of the key disadvantages of the classic intercompany sales order solution is that it requires regular reconciliation. Completion of this reconciliation is either a prerequisite or a step in financial close. Another typical issue is providing sufficient reporting on the process for different purposes, which could also be a part of financial close.

The classic intercompany sales order solution was not sufficient for many SAP clients, especially taking into account that intercompany transactions are often part of tax-efficient supply chain models and involve complex transfer pricing, which typically attracts the attention of auditors and tax authorities. As a result, many SAP clients developed custom solutions to address these pain points.

4.4.4 Advanced Intercompany Sales and Stock Transfers

Most of the limitations of the legacy intercompany sales order solution described in the previous section have been resolved in the new advanced intercompany sales and stock transfer engine that is available as of SAP S/4HANA release 2022, which has been enhanced in further feature pack stacks and releases. This new solution brings certain advantages to the financial close process, which we'll describe at the end of this section. Let's start with a brief description of the concept and features of the new advanced intercompany sales solution.

As presented in Figure 4.33, the new intercompany process starts when the selling company receives an order from an external customer. This order is registered in SAP S/4HANA as a

standard sales order and becomes the leading document in the advanced intercompany sales process; as a result, the advanced intercompany sales and stock transfer engine consistently applies any changes in this sales order (which is also known as an *initiating document*) to further documents in the flow. This sales order also triggers all kinds of related follow-up checks, including available-to-promise (ATP) checks, trade compliance checks, and product compliance checks. After the advanced intercompany sales order and stock transfer engine, an intercompany purchase order is automatically created in the delivering company code, and then, an intercompany sales order is automatically created in the delivering company code. In the next step, the delivering company code creates an outbound delivery with reference to the sales order from the selling company. Then, the delivering company physically delivers the ordered goods to the external customer.

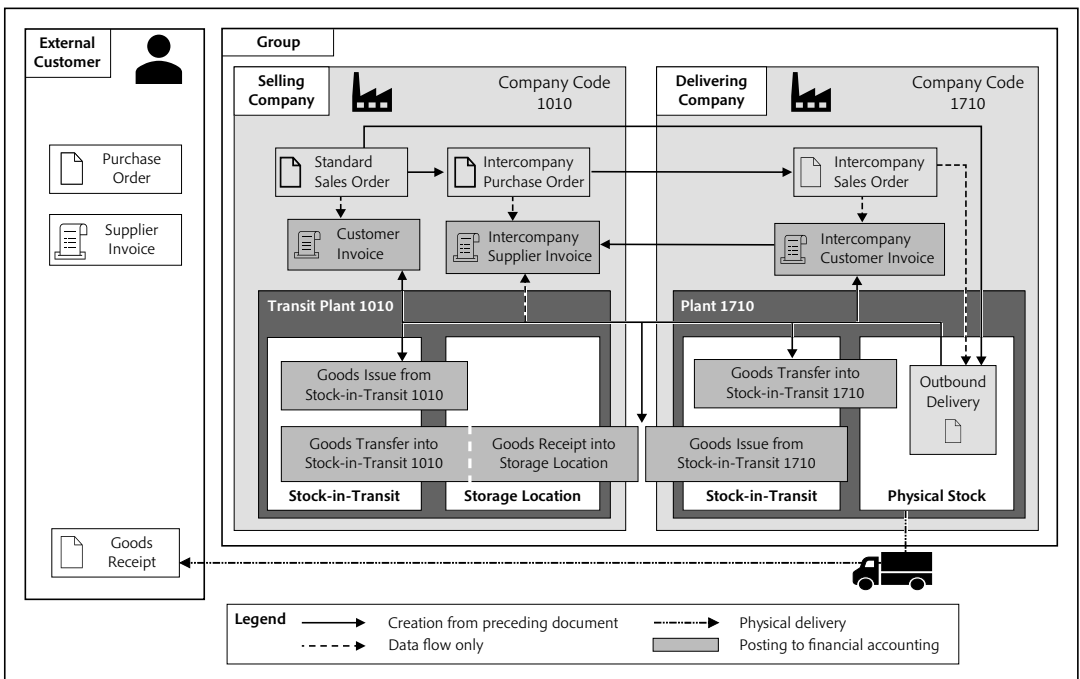


Figure 4.33: Advanced Intercompany Sales in SAP S/4HANA

After the physical goods are issued from a physical plant of the delivering company code, the advanced intercompany sales and stock transfer engine automatically creates a stock transfer into stock in transit. Then, goods are issued from stock in transit in the delivering company code and received into the stock in transit in the selling company code. Then, the system posts the goods issue from stock in transit in the selling company code, based on external transfer of control dates. In parallel, an intercompany sales invoice can be issued to the selling company by the delivering company. Subsequently, an intercompany vendor invoice is created in the selling company code, and the final sales invoice to the external customer is created in the selling company code.

Note

You can find the detailed configuration guide for the advanced intercompany sales process in SAP Note 3233830 and for advanced intercompany stock transfers in SAP Note 3233845.

Here are the key advantages of the advanced intercompany sales process, compared to the legacy solution:

- **Seamless end-to-end process coverage**

This allows all transactions—including group reporting, revenue recognition, product costing, and margin analysis—to be properly reflected in reporting.

- **High levels of automation**

Most steps are executed automatically. The advanced intercompany sales and stock transfer engine automatically applies changes in a sales order from the external customer to subsequent steps and documents in the entire flow.

- **Valuated stock in transit**

With the new concept of the transit plant, you can manage valuated stock in transit at all stages of the process, including the selling company code. A lack of this capability could lead to concerns related to IFRS 15 compliance.

- **Transfer of control of goods**

With this feature, you can seamlessly manage change of control between affiliates and to a customer, and you can properly recognize revenue based on the transfer of control, as required by IFRS 15. There are transfer-of-control date fields (planned and actual), including internal (between the delivering company and the selling company) and external (between the selling company and the external client) in the outbound delivery header. These drive automated inventory movements into stock in transit. We described revenue recognition requirements and related SAP solutions in Chapter 3, Section 3.6.

- **Sales orders and purchase orders in intercompany transactions**

A lack of this feature in the legacy solution was often a compliance concern that attracted the attention of auditors. There are several benefits of this new capability, such as the enablement of acquisition costs in product costing.

In addition to these advantages in advanced intercompany sales and stock transfer, we have the new concept of *value chain monitoring* (VCM) framework. The key element here is the Monitor Value Chains app (ID F4854), which allows you to monitor progress and issues related to intercompany transactions that are processed with advanced intercompany sales engine. On the initial screen, you can select the transaction by using the initial document number (which is the sales order number from the external customer) or by searching for any document number belonging to the flow. Selecting a transaction will let you see the overall status of the process. You can drill down to the list that shows all documents in the flow and their current processing stages. In the process flow view, shown in Figure 4.34, you

can see a graphical presentation of the document flow, including documents that have been successfully created (with a status of **Completed**) as well as documents that are still pending (with color-coded statuses showing the execution of certain process steps). You can also pull up detailed views of each document, such as the message log view and the process flow view.

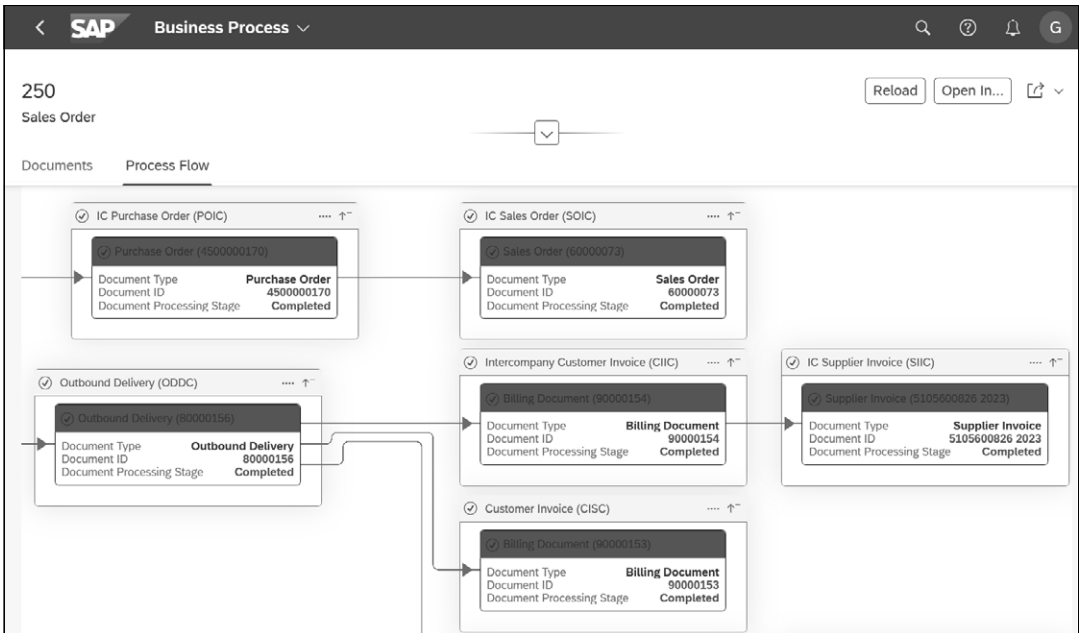


Figure 4.34: Intercompany Sales Process in the Monitor Value Flows App

It is worth underlining that VCM is not only a reporting/monitoring tool but also a framework that allows SAP customers to enhance the standard model delivered by SAP. For example, we have seen proof of concepts that enhance the advanced intercompany sales and stock transfer engine from two levels (selling company and delivering company) to three levels (selling company, delivering company, and manufacturing company). The multistage capability of advanced intercompany sales and stock transfers is expected in SAP S/4HANA 2025 FPS01.

From the financial close point of view, the main advantage of the new advanced intercompany sales solution is the potential to eliminate or at least significantly reduce the effort involved in the period-end intercompany reconciliation process.

Another benefit of the new advanced intercompany sales and stock transfer process in financial close is related to revenue recognition. With the new solution, we can get revenues posted at the same time as goods issues and see the profitability situation in real time. With the help of event-based revenue recognition (EBRR), we can shorten the financial close process because there is no need to perform related activities during the period-end close. This is completely different from the classic solution, in which we were able to see the real margin only in the period-end close.

On the other hand, the new advanced intercompany sales solution has some limitations. First of all, it currently works only on two levels within a group (the selling company and the delivering company), while many SAP clients have three levels (the selling company, the delivering company, and the manufacturing company [the last of which often operates in toll manufacturing mode]). Secondly, the solution can work only within a single SAP instance and within a single client. Many SAP customers who have multiple backend ERP system environments must be able to manage intercompany transactions across different SAP instances and clients (not to mention non-SAP ERP systems as well).

Note

You can learn more about this topic from the *Introducing Advanced Intercompany Sales and Stock Transfer with SAP S/4HANA* SAP PRESS E-Bite, which was written by Mrinal K. Roy (<http://s-prs.co/v613301>).

4.4.5 Intercompany Service Transactions

Several SAP S/4HANA capabilities are dedicated to the execution of intercompany service business scenarios.

One of the foundational options is the *intercompany service orders* functionality that is available in SAP S/4HANA Service. With intercompany service orders, you can distribute a service between two different company codes that belong to the same corporate group. One of the companies (the supplying company) executes the service based on the received intercompany service order and charges the service to the company that sells the service to an external customer (the demanding company). After service confirmation, an intercompany billing document is issued and posted to the demanding company as an intercompany supplier invoice. Two intercompany service item categories are available for this transaction: intercompany service item (with a fixed price) and intercompany service item (with ad hoc billing). From the financial close point of view, it is important that the intercompany sales process can be integrated with event-based revenue recognition, which we described in Chapter 3, Section 3.6.3.

Another scenario is called *intercompany service execution* and is based on the concept of dual service orders. In intercompany service execution, one company code (the demanding company) sells a service to an external customer and manages all commercial aspects of the transaction. At the same time, the demanding company fully delegates the execution of service to another company code belonging to the same corporate group (the supplying company). The whole flow is executed in SAP with two service orders: a customer-facing order in the demanding company code and an intercompany service order in the supplying company code. After service confirmation in the supplying company code, an intercompany invoice is issued to the demanding company.

One of the latest additions to the area of intercompany service transactions is the new resource-related intercompany billing functionality. It addresses a specific case in which one

company code (the demanding company) provides a service with the help of an employee of another company code (the supplying company). In this scenario, the demanding company code is responsible for service delivery to the end customer. You execute this process by following these steps:

1. Create an intercompany sales order

Create an intercompany sales order in the supplying company code, with the demanding company code playing the role of the sold-to party. This order remains open for a long time to facilitate all intercompany billing processes between the two companies. This sales order will be used for intercompany billing of materials consumed in the service execution. If you assign a dynamic item processor (DIP) profile to the sales order item, you will be able to convert the costs in the supplying company to materials that will be included in the intercompany billing.

2. Create a service order

Create a service order in the demanding company and assign it an employee from the supplying company. All costs incurred by the employee (service hours and expenses) will be charged between the supplying company code and the demanding company code.

3. Create a service confirmation

Have an employee of the supplying company code create a service confirmation for the planned service order items (the service hours and expenses).

4. Post the timesheet and expenses

Post the timesheet and expenses to post costs to the demanding company code and the supplying company code.

5. Billing

The costs incurred in the supplying company are transferred to an intercompany debit memo request, which is billed to the demanding company.

From the financial close point of view, the intercompany service order scenarios facilitate automated execution of service scenarios among company codes and contribute to ensuring the completeness of intercompany transactions.

4.4.6 Intercompany Reconciliations

Traditionally, intercompany reconciliations were important elements of the financial close process for groups of companies. New solutions from SAP and partners allow us to shift-left certain activities in the intercompany reconciliation area, from period-end close to the course of the fiscal period, and to automate certain standard activities to free up additional time for us to focus on complex cases and exceptions or on customers and suppliers who are critical to business growth. These solutions also provide better visibility and more transparency into reconciliation and provide improved performance in execution of reconciliation activities based on large volumes of data—thanks to the fact that we can leverage SAP HANA in-memory parallel processing when running the matching engine.

The new solution from SAP is named *intercompany matching and reconciliation* (ICMR) and is sometimes also referred to as *advanced intercompany matching and reconciliation*. It replaces the legacy Intercompany Reconciliation (ICR) solution from SAP ERP. The new ICMR solution has been completely redesigned for SAP S/4HANA and optimized for the SAP HANA database. It enables matching and reconciliation of financial data in real time, with a high level of process automation (and a full audit trail).

The key conceptual difference is that business rules related to the reconciliation process are owned and maintained by business users. This is completely different from the legacy ICR solution, in which such business rules were a part of configuration and any adjustments required the involvement of an SAP system consultant.

The ICMR process involves the key steps shown in Figure 4.35.

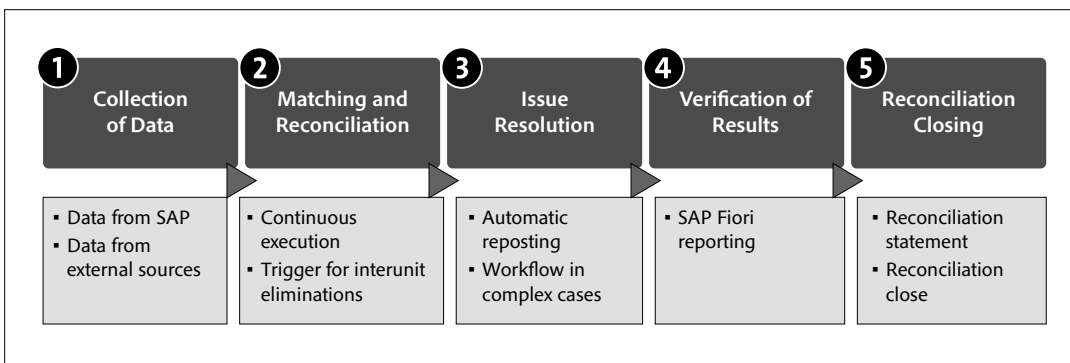


Figure 4.35: ICMR in SAP S/4HANA

Let's walk through them:

1. Collection of data

The new ICMR solution offers several options for the input of data; on top of using data from the Universal Journal in SAP S/4HANA Finance, ICMR can work with data from SAP S/4HANA group reporting or data originating from external systems, which can be replicated via file upload or integrated with the use of a data import API. You can also use it to read data from remote systems via SAP HANA smart data access (SDA) or to set up real-time replication from satellite systems via SAP Landscape Transformation Replication Server. Additionally, when you are using SAP S/4HANA Finance for group reporting, you can use SAP Group Reporting Data Collection as the data aggregation tool for external sources. See Chapter 7 for more details.

2. Matching of data

After the collection of data, you can proceed to the core matching and reconciliation process. The new ICMR solution has two basic capabilities: matching and reconciliation. The matching module focuses on transaction-level matching, and the reconciliation module focuses on an aggregation-level view. You can manage both within the *matching run*, which you execute with the Run Matching app (ID ICARM; see Figure 4.36) on both the aggregation and line-item levels. When the matching run is completed, you can review

the matching results, including the generated matching documents and matching assignments. These two modules—matching and reconciliation—are complemented by the autoposting module that enables the posting of variances, accruals, and interunit eliminations.

Figure 4.36: Run Matching App

Note

One of the most important advantages of the new ICMR solution is that it supports the concept of continuous accounting by shifting the intercompany process from once-per-period execution during the financial close to continuous execution during the course of the fiscal period. By moving from periodic to continuous execution of intercompany reconciliation activities, you can eliminate days of work from the peak of the financial close period, and as a result, you can reduce the overall duration of the financial close process. In Chapter 10, Section 10.4.2, we'll present the concept of continuous accounting in more detail and discuss how it can impact the financial close process.

3. Reconciliation

In the next step, the accelerated execution of intercompany reconciliations can also accelerate the consolidation process and financial close at the group level. Intercompany reconciliations in ICMR can trigger intercompany eliminations as a part of the group consolidation process managed in SAP S/4HANA Finance for group reporting. You can define the automatic posting rules with the Define Posting Rules – Intercompany Matching and Reconciliation app (ID F4773), as shown in Figure 4.37. You can manage ICMR elimination tasks in the Consolidation Monitor (which includes the 2042 IC Elimination

of Balance Sheet Items and S022 IC Elimination of Other Income and Expenses tasks). Thanks to this new concept, you can get more detailed information on elimination differences and also drill down to detailed intercompany transactions. You can also get information on differences and break it down into several categories, including transaction differences and currency translation differences with split by transaction currency. We describe consolidation concepts and financial close at the group level in Chapter 7.

The screenshot displays the SAP 'Posting Rule Details' interface for rule SC001. The interface is organized into three main sections: Document Header, Control Options, and Document Items.

- Document Header:** Contains the 'Document Text' field with the value 'Elimination Posting from ICMR'.
- Control Options:** Contains the 'Posting Side' field with the value 'Post differences to leading unit ()'.
- Document Items:** Contains two entries:
 - Item: Transaction Difference
 - Set Financial Statement Item: \$DERIVE_FROM_TARGET_ATTR ('S-ELIMINATION-TARGET')
 - Item: Currency Translation Difference
 - Set Financial Statement Item: \$DERIVE_FROM_TARGET_ATTR ('S-ELIMINATION-TARGET')
 - Subitem (SUBIT): FIX_VALUE ('980')

Figure 4.37: Definition of Elimination Postings from ICMR

4. Issue resolution

You can automatically resolve minor discrepancies or manually repost differences with relevant reason codes. In complex cases that require further clarification and confirmation with intercompany team members, you can also trigger workflows that you can define in the Manage Workflows – Intercompany Variance Adjustment app (ID F5766) and email communication. In complex cases that require manual adjustments and communications, you can nominate accounting clerks who will be responsible for the clarification of intercompany reconciliation cases and disputes and then, with the help of workflow, communicate and coordinate activities. There is a standard variance adjustment approval workflow scenario available in ICMR, and it can be triggered if the difference is higher than the predefined tolerance limit. You can grant approvals in the Verify Intercompany Variance Adjmt app (ID F5764), and you can send emails with inquiries and leverage several email templates in the process. Email addresses can be determined automatically, based on the setup in the teams and responsibilities configuration, or you can provide them manually.

5. Verification of results

As a prerequisite for the reconciliation closing, you can execute reports (e.g., with the Reconciliation Status Overview and Balances app [ID F3865]) to confirm the reconciliation results and leverage drilldown capabilities to source documents in order to perform a more detailed analysis where required.

6. Reconciliation closing

On top of these shift-left and enablement of continuous execution of reconciliation activities, there is also a new functionality supporting financial close. Starting from SAP S/4HANA 2020, you can use the Manage Reconciliation Close app (ID F4774), as shown in Figure 4.38.

Company	Trading Partner	Difference	Reconciliation Close Status
1010 (Company 1010)	1710 (Company 1710)	-898,38 USD	Open
1710 (Company 1710)	1720 (Company 1720)	0,00 USD	Closed
2910 (Company 2910)	1710 (Company 1710)	32,50 USD	Open

Figure 4.38: Manage Reconciliation Close App

You can use the app to close or reopen the reconciliation period, review reconciliation results, or create commentary notes explaining reconciliation differences. Then, you can conclude financial close by preparing a reconciliation statement for the financial period. Reconciliation close is optional; you can activate the reconciliation close process for reconciliation cases that are relevant to reconciliation close status management, elimination method definition, and elimination postings.

4.4.7 SAP Intercompany Governance by BlackLine

Finally, it is also worth mentioning that there are tools that support intercompany transactions and their reconciliation that are available from SAP solution extension partner BlackLine. SAP Intercompany Governance by BlackLine is an origination option that lets you simplify creation of intercompany transactions. You can do this by aligning upfront key-

relevant characteristics and conditions before posting them to ERP systems, calculating taxes and transfer prices, and coming to agreement on transaction terms and conditions. With the SAP Intercompany Governance by BlackLine account settlement option, for companies with multi-ERP system landscapes, you can maintain a global public cloud-based subledger for intercompany transactions. This can serve as a basis for reconciliations, netting, clearing balances, settlements, dispute resolution, etc.

4.5 Currency Revaluation

Currency revaluation is the process of reassessing the value of assets and liabilities to reflect the impact of the latest exchange rates. This critical step in the month-end closing of an organization ensures compliance with accounting principles IFRS (IAS 21) and US GAAP (ASC 830), and it helps investors and stakeholders gain a more accurate picture of a company's financial health.

The typical steps to perform currency revaluation are as follows:

1. Identify the accounts.
2. Obtain monthly exchange rates.
3. Calculate the revaluated amounts.
4. Post revaluation journals.

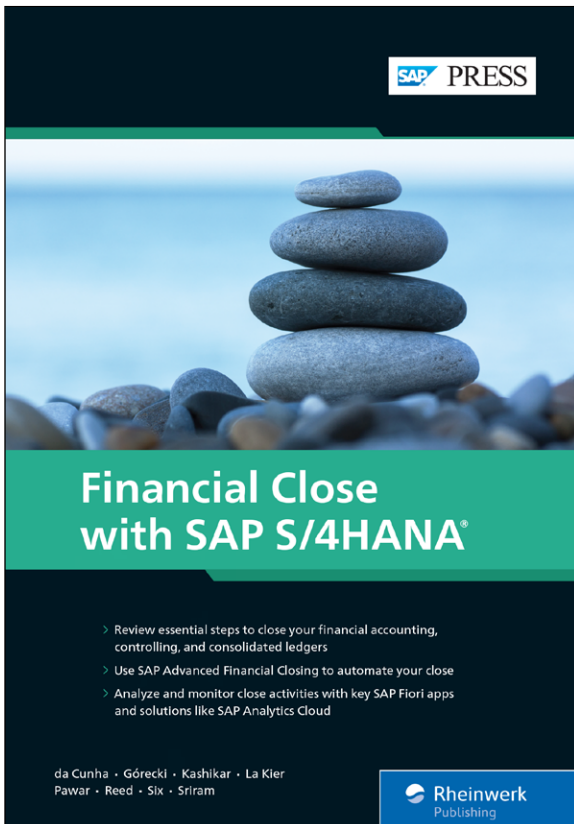
The balance sheet accounts that allow you to record transactions in currencies other than the local currency or the company code currency and the accounts that record transactions exclusively in foreign currencies are called *foreign currency accounts*. You revalue the balances on these accounts during period-end close following ASC 830 (formerly FASB 52), using the latest exchange rates. The calculated exchange rate difference could be either a gain or a loss, and you can journal it to separate general ledger accounts in the SAP S/4HANA system.

In the following sections, we'll dive into the currency revaluation process for financial close, including the management of exchange rates and the use of the advanced foreign currency valuation functionality.

4.5.1 Currency Exchange Rates

SAP S/4HANA allows an organization to use up to twelve currencies: a transaction currency, a company code currency, a group currency, a hard currency and up to eight freely defined currencies. For each currency type, the organization needs to maintain a currency conversion setting that defines how to calculate amounts based on the source currency type and the exchange rate type. You can make these conversion settings at a global level, or you can have a separate one for each company code. You can maintain them in Transaction FINSC_LEDGER.

The formula for calculating amounts in a given currency type is as follows:



da Cunha, Górecki, Kashikar, La Kier,
Pawar, Reed, Six, Sriram

Financial Close with SAP S/4HANA

- Review essential steps to close your financial accounting, controlling, and consolidated ledgers
- Use SAP Advanced Financial Closing to automate your close
- Analyze and monitor close activities with key SAP Fiori apps and solutions like SAP Analytics Cloud

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- > Review essential steps to close your financial accounting, controlling, and consolidated ledgers
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