



# **Financial Accounting in SAP**

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# Table of Contents

- Introduction
- SAP Financial Accounting (FI)
- Integration of Financial Accounting with other components

# Introduction

- Enterprise resource planning (ERP) is business process management software that allows an organization to use a system of integrated applications to manage the business and automate many back office functions related to technology, services and human resources. ERP software integrates all facets of an operation, including product planning, development, manufacturing, sales and marketing.
- ERP software is considered an enterprise application as it is designed to be used by larger businesses and often requires dedicated teams to customize and analyze the data and to handle upgrades and deployment. In contrast, Small business ERP applications are lightweight business management software solutions, customized for the business industry you work in.
- An Enterprise Resource Planning (ERP) System is a fully integrated Business Management System covering the functional areas of an enterprise, such as Accounting, Finance, Human Resources, Logistics and Production etc. (Anderson, 2011).

# Introduction

The word of “Integration” is the key element for ERP implementation. An ERP system is an attempt to integrate all functions across a company to a single computer system that can serve all specific needs of users:

- It organizes and integrates operation processes and information flows etc. to make the optimum use of resources such as people, material, money and machine etc.
- It may also integrate key customers and suppliers as part of the enterprise's operation.
- It provides integrated database and custom-designed report systems.
- It adopts a set of “best practices” for carrying out all business processes.

# Introduction

Enterprise resource planning promises:

- one database,
- one application,
- and one user interface for the entire enterprise, where once disparate systems ruled manufacturing, distribution, finance and sales etc.

# Introduction

- In today's world, there are many leading market providers of ERP system and SAP is one of the market and technology leaders in building business software towards structured work and data management in organizations. SAP stands for Systems, Applications and Products in Data Processing. SAP AG is originally German multinational software who deals in software development for business management and improved customer relations in enterprises.

# Introduction

- Systems Analysis and Program Development (SAP) was founded in June, 1972 and since then, many SAP ERP operations modules has emerged that are designed focusing on various different processes including SAP ERP sales and service, sales and distribution, customer relationship, financial management, business intelligence and more. SAP development modules are the following:

# Introduction

- SAP Financial Accounting (FI)
- SAP Controlling (CO)
- SAP Sales and Distribution (SD)
- SAP Production Planning (PP)
- SAP Materials Management (MM)
- SAP Quality Management (QM)
- SAP Human Capital Management (HCM)

# Introduction

- These modules are highly integrated in real-time, which means that if information is shared between modules then the data is entered only once. This reduces the chances of error arising from repetitive entry and also reduces the man-hours. Managers and decision makers always have information at their fingertips and this helps them in effective decision making. SAP has been around for over three decades.
- SAP is the leading ERP (Enterprise Resource Planning) software. Because of its liberal open-architecture, there are millions of programmers working around the world to provide interaction between thousands of major software and SAP. SAP is usually implemented in phases. The first phase is when organizational structure and accounting components are configured, tested and then taken live. Gradually more modules are turned on (SAP, 2014a).

# SAP Financial Accounting (FI)

- SAP Financial Accounting (FI) is an important core module where in live-time, the financial processing transactions are all captured to provide the basis via which data is drawn for external reporting. This SAP FI Module is integrated with many parallel modules that enable a company to unify processes that may have needed the utilization of many software packages (Brinkmann - Zeilinger, 2000)..

# SAP Financial Accounting (FI)

- SAP FI module deals in managing financial transactions within enterprises. This financial accounting module helps employees to manage data involved in any financial and business transactions in a unified system. This module functions very well for reporting requirements. The SAP FI module is very flexible and functions well in any type of economic situation. Be it a smaller organization or a larger organization, SAP implementation helps in consolidating data for diverse business transactions and legal requirements. Financial Accounting module helps one to get real-time financial position of an enterprise in the market. SAP FI incorporates with other SAP modules such as SAP SD, SAP MM, SAP PP, Payroll and more for better work results.

# SAP Controlling (CO)

- SAP CO module is another important SAP modules offered to enterprises. The controlling module supports in the process works of planning, reporting and monitoring operations of businesses. It involves methods to view and organize costs that are required for financial reporting. Controlling module enables one to plan, track, perform and report about costs. Controlling includes managing and configuring master data that covers cost elements, cost centers, profit centers, internal orders, and functional area and so on.

# SAP NetWeaver Business Warehouse (BW)

- SAP is the most important and greatest solution in enterprise resource planning (ERP), and one of its business intelligence (BI) solutions is SAP NetWeaver Business Warehouse (BW).
- The Business Explorer Suite is a component of SAP NetWeaver Business Warehouse. The Figure 1. overviews the BEx tools' integration into the SAP NetWeaver BW architecture. The SAP BusinessObjects Business Intelligence Platform provides a series of other applications for an enterprise-wide, end-to-end reporting scenario that go far beyond the functional scope of the Business Explorer tools. (Dinkel et al., 2011)

# **SAP NetWeaver Business Warehouse (BW)**

The Business Explorer contains the under mentioned reporting tools:

- BEx Query Designer,
- BEx Analyzer,
- BEx Web Analyzer,
- BEx Web Application Designer,
- BEx Report Designer
- Information Broadcasting.

# SAP NetWeaver Business Warehouse (BW)

- The BW query is the central reporting interface for analyzing Business Intelligence data within the SAP NetWeaver BW architecture. However, an SAP query can be used as a data source during extraction from SAP source systems to the BW system. When the term query is used within the connection of data analysis in a BW system, the BW query is meant. (Heilig et al., 2012)

# **SAP Sales and Distribution (SD)**

- SAP SD modules deal in managing all transactions ranging from enquiries, proposals, quotations and pricing and more. The sales and distribution module helps greatly in inventory control and management. SAP SD module consists of master data, system configuration and transactions. Some of the sub-components of SAP SD module are: master data, sales support, sales, shipping and transportation, billing, credit management, and so on.

# SAP Production Planning (PP)

- SAP PP module is another important module that includes software designed specifically for production planning and management. This module also consists of master data, system configuration and transactions in order to accomplish plan procedure for production. SAP PP module collaborate with master data, sales and operations planning, distribution resource planning, material requirements planning, Kanban, product cost planning and so on while working towards production management in enterprises (Hilgefert, 2012).

# **SAP Materials Management (MM)**

- SAP MM module as the term suggests manages materials required, processed and produced in enterprises. Different types of procurement processes are managed with this system. Some of the popular sub-components in SAP MM module are vendor master data, consumption based planning, purchasing, inventory management, invoice verification and so on.

# SAP Quality Management (QM)

- SAP QM module helps in management of quality in productions across processes in an organization. This quality management module helps an organization to accelerate their business by adopting a structured and functional way of managing quality in different processes. SAP QM module collaborates in procurement and sales, production, planning, inspection, notification, control, audit management and so on.

# SAP Human Capital Management (HCM)

- SAP HCM module enhances the work process and data management within HR department of enterprises. Right from hiring a person to evaluating one's performance, managing promotions, compensations, handling payroll and other related activities of an HR is processed using this module. The task of managing the details and task flow of the most important resource i.e. human resource is managed using this SAP ERP HCM module

# SAP Financial Accounting (FI)

- SAP FI ( Financial Accounting ) is one the functional module in SAP software. SAP FI module as the term suggests deals in managing financial transactions within enterprises. This financial accounting module helps employees to manage data involved in any financial and business transactions in a unified system. This module functions very well for reporting requirements.
- The SAP FI module is very flexible and is functions well in any type of economic situation. Be it a smaller organization or a larger organization, SAP implementation helps in consolidating data for diverse business transactions and legal requirements. Financial Accounting module helps one to get real-time financial position of an enterprise in the market. SAP FI incorporates with other SAP modules such as SAP SD, SAP MM, SAP PP, Payroll and more for better work results (Dinkel et al, 2011).

# SAP Financial Accounting (FI)

- Company-wide control and integration of financial information is essential to strategic decision making, SAP ERP Financials enables you to centrally track financial accounting data within an international framework of multiple companies, languages, currencies, and charts of accounts (Hernandez et al, 2006) .

# SAP Financial Accounting (FI)

SAP FI module mainly deals with

- Fixed asset
- accrual
- bank
- cash journal
- inventory
- tax accounting
- General ledger,
- Accounts receivable
- accounts payable
- AR/AP,
- Fast close functions
- Financial statements
- Parallel valuations

# **SAP Financial Accounting (FI)**

## **2.1 Integration of Financial Accounting with other components**

All accounting-relevant transactions made in Logistics (LO) or Human Resources (HR) components are posted real-time to Financial Accounting by means of automatic account determination. This data can also be passed on to Controlling (CO). This ensures that logistical goods movements (such as goods receipts and goods issues) are exactly reflected in the value-based updates in accounting.

**Integration within Financial Accounting.**

Every posting that is made in the subledgers generates a corresponding posting to the assigned G/L accounts. This ensures that the subledgers are always reconciled with the general ledger (I05).

# SAP Financial Accounting (FI)

The Financial Accounting application component comprises the following sub-components:

## **General Ledger (FI-GL)**

- The central task of G/L accounting is to provide a comprehensive picture for external accounting by means of accounts. Recording all value-related business transactions (primary postings as well as settlements from internal accounting) in a software system that is fully integrated with all the other operational areas of a company ensures that the accounting data is always complete and accurate.

# **SAP Financial Accounting (FI)**

## **General Ledger (FI-GL)**

- Essentially, the general ledger serves as a complete record of all business transactions. It is the centralized, up-to-date reference for the rendering of accounts. Actual individual transactions can be checked at any time in real-time processing by displaying the original documents, line items, and transaction figures at various levels such as: account information, journals, totals/transaction figures, balance sheet/profit and loss evaluations (I05).

# **SAP Financial Accounting (FI)**

## **Accounts Payable (FI-AP)**

- The Accounts Payable application component records and administers accounting data for all vendors. It is also an integral part of the purchasing system, where deliveries and invoices are managed according to vendors. The system automatically makes postings in response to the operative transactions. In the same way, the system supplies the Cash Management application component with figures from invoices in order to optimize liquidity planning.

# **SAP Financial Accounting (FI)**

## **Accounts Receivable (FI-AR)**

- The Accounts Receivable application component records and administers accounting data of all customers. It is also an integral part of sales management.

# **SAP Financial Accounting (FI)**

## **Bank Accounting (FI-BL)**

- This component is used to handle accounting transactions that you process with your bank. It includes the management of bank master data, cash balance management (check and bill of exchange management), and the creation and processing of incoming and outgoing payments.

# SAP Financial Accounting (FI)

## Asset Accounting (FI-AA)

- Asset Accounting is a sub component of SAP FI Module. It deals with the fixed assets of the company for their management and analysis/ It provides the complete information about the fixed assets transactions inside a company. So, the Asset Accounting (FI-AA) component is used for managing and supervising fixed assets with the SAP System.
- In Financial Accounting, it serves as a subsidiary ledger to the General Ledger, providing detailed information on transactions involving fixed assets. SAP Asset Accounting is tightly integrated with many other modules like MM, PM etc. For example if an item purchased that can be considered as an asset, the information will pass to Asset Accounting module ( FI-AA) from MM module.
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# **SAP Financial Accounting (FI)**

## **Funds Management (FI-FM)**

- SAP Funds management ( FI-FM ) is another sub component under FI module. As the name it helps the organization to manage funds. It helps the companies for proper budgeting and avoiding overrun budgets. Funds management integrate with many modules like General Ledger Accounting ( G/L ), bank accounting , Material management ( MM ) etc to get the complete funds data. It checks all the transactions like where from receiving the funds, and where is all the funds expenditure occurs and which are the funds to receive in future. based on these data, organization can plan and create their forecasting budgets and can utilize their funds more better way.

# **SAP Financial Accounting (FI)**

## **Travel Management (FI-TV)**

- SAP Travel Management supports all processes involved in handling business trips. Its comprehensive functionality is integrated with settlement, taxation, and payment processes. Travel Management enables you to request, plan, and book trips, create travel expense reports, and transfer expense data to other functional areas.

# **SAP Financial Accounting (FI)**

## **Special Purpose Ledger (FI-SL)**

- Special purpose ledgers are ledgers defined to meet the specific business requirements, according to the dimensions you define. They contain the dimensions that you specify. This is the only type of ledger you can create in your FI-SL system (SAP, 2014c).

## 2.2 SAP FI General Ledger Accounting

- SAP General Ledger Accounting ( Shortly G/L Accounting ) is one of the main sub component of SAP FI module.A general ledger is the data that contains entire transactions of a company. It acts as the main record for all accounting purposes.
- The central task of G/L accounting is to provide a comprehensive picture for external accounting and accounts. Recording all business transactions (primary postings as well as settlements from internal accounting) in a software system that is fully integrated with all the other operational areas of a company ensures that the accounting data is always complete and accurate.

# 2.2 SAP FI General Ledger Accounting

- Essentially, the general ledger serves as a complete record of all business transactions. It is the centralized, up-to-date reference for the rendering of accounts. Actual individual transactions can be checked at any time in realtime processing by displaying the original documents, line items, and transaction figures at various levels such as:
  - Account information
  - Journals
  - Totals/transaction figures
  - Balance sheet/profit and loss evaluations
  - (SAP General Ledger Accounting, FI-GL, 2001)
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# 2.2 SAP FI General Ledger Accounting

- It contains all the transactions like purchases from vendors and customer transactions and other inside company transactions.
- **Important Transaction codes for SAP FI General Ledger**
  - FB50 - Enter GL Account Document
  - F-01 - Enter Sample Document
  - FB02 – Change Document
  - F-06 - Post Incoming Payments
  - F-07 - Post Outgoing Payments
  - FBCJ - Cash journal Posting

## 2.2.1. FI Organizational Structure

Organizational structures occur in all important functional areas of the SAP system.

- Represents the legal and/or organizational views of an enterprise.
- Forms a framework that supports the activities of a business in the manner desired by management.
- Permits the accurate and organized collection of business information.
- Supports the development and presentation of relevant information in order to enable and support business decisions.

## 2.2. I. FI Organizational Structure

### Elements in FI Organizational Structure

- *Client:* An independent environment in the system. Client is an obligatory organizational unit (field name: Mandant), a commercially, organizationally, and technically self-contained unit within the SAP system, with its own master records and tables.

## 2.2.1. FI Organizational Structure

### Elements in FI Organizational Structure

- *Client:* We can have more than one client defined in the SAP system. The standard SAP system comes delivered with clients 000 and 001. Because the client is the highest level in the SAP system, and FI module hierarchy, any specification we make or data we enter at this level is valid for all company codes and for all other organizational structures within that client.
- This ensures that the data is consistent: we need to make specifications or enter data only once. We need to enter a client key (three-digit identifier) when we log on to the SAP system.

## 2.2.1. FI Organizational Structure

### Elements in FI Organizational Structure

- *Client:* The data entry, processing, and analysis are all saved for each client. Used for external reporting purposes, the organizational units of FI are designed to fulfill our business requirements and meet the legal or statutory regulations of external parties. We assign these organizational units to each other in order to build the framework for processing business transactions by transferring data automatically between the individual components. (Narayanan, 2015.)

## 2.2. I. FI Organizational Structure

### Elements in FI Organizational Structure

- *Client:* Before we start defining the required organizational units, we need to meet the country specific requirements by completing the localization of sample organizational units supplied by SAP. Specifications that we make at this level apply to all company codes. (Narayanan, 2015.)

## 2.2.1. FI Organizational Structure

### *Company Code:*

The most important organizational element in Financial Accounting is the company code. It is the smallest organizational unit of Financial Accounting for which a complete self-contained set of accounts can be drawn up for purposes of external reporting.

**Company Code:**

- Represents an independent legal accounting unit
- Balanced set of books, as required by law, are prepared at this level.
- A client may have more than one company code.

## 2.2.1. FI Organizational Structure

### *Chart of Accounts:*

- - A classification scheme consisting of a group of general ledger (G/L) accounts
- - Provides a framework for the recording of values to ensure an orderly rendering of accounting data. The G/L accounts it contains are used by one or more company codes.

## 2.2.1. FI Organizational Structure

### *Credit Control Area*

- - An organizational entity which grants and monitors a credit limit for customers.
- - It can include one or more company codes

## 2.2.1. FI Organizational Structure

### *Business Area*

- An organizational unit that represents a separate area of operations or responsibilities within an organization and to which value changes recorded in
- Financial Accounting can be allocated
- Financial statements can be created for business areas, and these statements can be used for various internal reporting purposes.

## 2.2.1. FI Organizational Structure

### *Business Area*

The business area is an organizational unit that we can use freely for internal or external reporting to depict segmentation of our business within or across company codes. Each business area is regarded as a financially separate unit for which an internal balance sheet and profit and loss statement can be created. The business area is available in general ledger reporting (in both the classic General Ledger and the new SAP General Ledger), and can be set up in the special ledger tables. We can create a business area using

## **2.2.1. FI Organizational Structure**

### *Profit Centers*

In new General Ledger Accounting, profit centers can be part of Financial Accounting. That means that the profit center information is stored in the totals table of FI \*. As company codes, the profit centers function as a dimension for financial reporting. A profit center can represent many things: an organizational unit within the company, a line of business, a geographical location.

## **2.2.1. FI Organizational Structure**

### ***Segments***

The segment is a new organizational unit available with the new General Ledger Accounting.

Segments can also be used as a dimension for reporting purposes. The aim of segment reporting is providing an insight into different business activities of a diversified company and provide information about the general environment.

## 2.2.2 Accounting transactions in General Ledger

- To ensure that business transactions are constantly maintained correctly, you post them to G/L accounts in General Ledger Accounting. With the posting, the system generates a document, saves the data in the database, and provides the data for the update.

## 2.2.2 Accounting transactions in General Ledger

- Accountants create many journal entries as part of their daily work. In SAP, accountants can use a single-entry Enjoy screen for most of their postings. In some cases, the traditional complex screen is used. In both methods, G/L account postings are automatically listed in the income statement report (as long as the accounts are included in the financial statement version). You can display the respective postings also when querying posted accounts.

## 2.3 SAP FI – Accounts Payable

- The Accounts Payable application component records and manages accounting data for all vendors. It is also an integral part of the purchasing system: Deliveries and invoices are managed according to vendors. The system automatically triggers postings in response to the operative transactions.

## 2.3 SAP FI – Accounts Payable

- The application component in financial accounting is accounts payable and accounts receivables. The longevity of an organization more or less will depend on their abilities to manage the accounts payable and receivables of the organization. There is no organization without these words. Hence these components have significant role in finance module. Similarly even in sap also the same was dealt accurately.

## 2.3 SAP FI – Accounts Payable

- While taking up the project we must understand the various business processes involved in this area. Furthermore we have to discuss with the company people regarding their terms and conditions while coming into a contract for either supply of goods or sale of goods. We must have thorough knowledge in dealing with these functionalities. Generally the sundry creditors are called accounts payables in sap environment and sundry debtors are called accounts receivables.

## 2.3 SAP FI – Accounts Payable

- Payables are paid with the payment program. The payment program supports all standard payment methods (such as checks and transfers) in printed form as well as in electronic form (data medium exchange on disk and electronic data interchange). This program also covers country-specific payment methods.

## 2.3 SAP FI – Accounts Payable

- You can design balance confirmations, account statements, and other forms of reports to suit your requirements in business correspondence with vendors. There are balance lists, journals, balance audit trails, and other internal evaluations available for documenting transactions in Accounts Payable.

## **2.4 SAP FI – Accounts Receivable**

- The Accounts Receivable application component records and manages accounting data of all customers. It is also an integral part of sales management.

## 2.4 SAP FI – Accounts Receivable

- All postings in Accounts Receivable are also recorded directly in the General Ledger. Different G/L accounts are updated depending on the transaction involved (for example, receivables, down payments, and bills of exchange). The system contains a range of tools that you can use to monitor open items, such as account analyses, alarm reports, due date lists, and a flexible dunning program. The correspondence linked to these tools can be individually formulated to suit your requirements. This is also the case for payment notices, balance confirmations, account statements, and interest calculations. Incoming payments can be assigned to due receivables using user-friendly screen functions or by electronic means, such as EDI.

## 2.4 SAP FI – Accounts Receivable

- The payment program can automatically carry out direct debiting and down payments.
- There are a range of tools available for documenting the transactions that occur in Accounts Receivable, including balance lists, journals, balance audit trails, and other standard reports. When drawing up financial statements, the items in foreign currency are revalued, customers who are also vendors are listed, and the balances on the accounts are sorted by remaining life.

## **2.4 SAP FI – Accounts Receivable**

- Accounts Receivable is not merely one of the branches of accounting that forms the basis of adequate and orderly accounting. It also provides the data required for effective credit management, (as a result of its close integration with the Sales and Distribution component), as well as important information for the optimization of liquidity planning, (through its link to Cash Management).

## 2.5 SAP FI – Bank Accounting

- SAP Bank Accounting is a sub component under FI module. It deals with all the transactions done through bank. This component is used to handle accounting transactions that you process with your bank. It includes the management of bank master data, cash balance management (check and bill of exchange management), and the creation and processing of incoming and outgoing payments. It is possible to freely define all country-specific characteristics, such as the specifications for manual and electronic payment procedures, payment forms, or data media.

## 2.5 SAP FI – Bank Accounting

- In a company most of the transactions occurring through banks only. So we can say it is one the important component for SAP financial accounting system. It deals with all the incoming and outgoing transactions, balance management and bank transaction master data. We can create and process anytype of bank transactions using Bank accounting component.
- SAP has a dedicated solution to handling of bank accounts. This component is used to handle accounting transactions that you process with your bank as well as with the banks of customer and vendor. This solution is called as bank

## 2.5 SAP FI – Bank Accounting

- Management of Bank Master data for your company's bank;
- Keeps Bank Master data for the customer of your Company;
- Keeps Bank Master data for the vendors of your company;
- Cash balance management ( Check and bills of exchange management);
- Creation and process of incoming payments;
- Creation and process of outgoing payments;
- Handles Accounting transactions that you process with your bank. (I04)