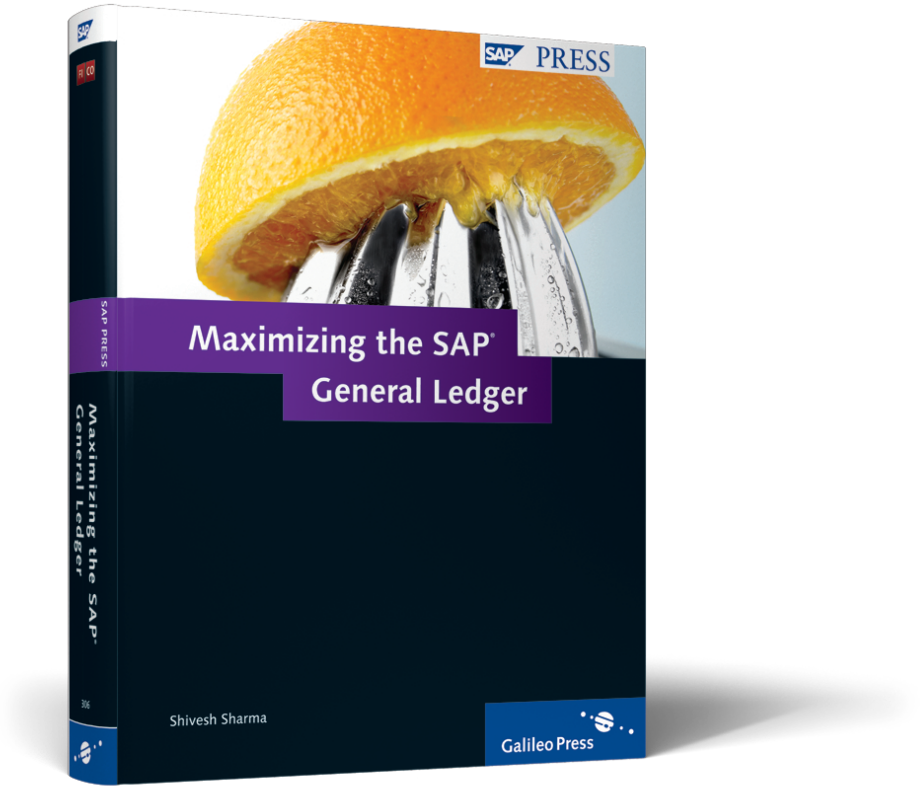
Shivesh Sharma

Maximizing SAP® General Ledger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This chapter explores how SAP General Ledger is integrated with order-to-cash and procure-to-pay processes by exploring the best practice scenarios and how you can tailor these to your organization. Additionally, we explain the account determination procedure for both processes.

5 General Ledger Integration with Order-to-Cash and Procure-to-Pay Scenarios

General ledger accounting is the glue that holds together the various subcomponents of SAP ERP Financials and the non-financial components of SAP ERP. Most of the transactions that are recorded in the general ledger are a result of processing from other business events, so it is very important to understand how other business processes integrate with SAP General Ledger. In this chapter, we introduce the two key business processes that determine an organization's financial efficiencies:

- Order-to-cash
- Procure-to-pay

We explain how these business processes can be mapped in SAP ERP and at what stage the general ledger is affected. Additionally, you will learn how to customize the integration of SAP General Ledger with these processes.

In this chapter, we begin with a discussion of the business process flows for both the order-to-cash and procure-to-pay scenarios. We then go on to discuss each of these scenarios individually in more detail, and finally detail the Customizing settings for each.

Note

The focus of this chapter is not to explain the financial subledgers that are tied to the business processes, but to explain how SAP General Ledger is tied directly to the Logistics components of the order-to-cash and procure-to-pay processes. The integration of the financial subledgers with the general ledger is explained in Chapter 7.

Key Takeaways

- Understand that business processes cross functional boundaries and typically require tighter integration, because many components of supply chains are outsourced.

- Understand that standard business processes must be customized to your organization, but use best practice processes to drive maximum efficiency.
- Understand the accounting entries as they occur in different order-to-cash and procure-to-pay business processes. It is important to understand the context of the process to understand the accounting entries in totality.
- Understand how to configure the account determination in Sales and Distribution and Materials Management.
- Understand how to set up document summarization in SAP Sales and Distribution and Materials Management.

5.1 Business Process Flow

To appreciate the complexities and nuances of business processes, you must first understand their context. In this section, we explain the overall process by first discussing how simple components gel together and then showing how these components can be built and enhanced as we go along.

In this section, we discuss the business process flows for the order-to-cash and procure-to-pay scenarios and the effect of each on SAP General Ledger.

5.1.1 Order-to-Cash

Let's evaluate the sales order process by taking the simple example of creating a sales order for an in-stock material and then following the entire process through to its completion. This will illustrate the handoffs from Sales and Distribution and other components to SAP General Ledger.

Figure 5.1 illustrates the sales order process, which is one of the simpler scenarios: You have material available in stock, and you need to record the sale and subsequent transactions for the sale. The sales order process is initiated when the customer needs to buy a product that is readily available. Credit Management processes are triggered for the sales order amount, and a sales quotation is created. The customer agrees to the terms of the quotation, which then is converted to a sales order in the system. If the Credit Management checks block the order, the credit manager reviews them, and then the order is confirmed (assuming that whatever caused the block has been remedied or an exception has been noted). Once the order is confirmed, it goes to the order fulfillment department, where the warehouse clerk performs the delivery processing, does the picking, checks the batches, and assigns a serial number (if required). After the order is shipped, a delivery note is sent to the customer and recorded in the system as a post goods issue. At this stage, the system creates the accounting document, debiting COGS, and crediting inventory. Because the order has been delivered, the customer can now be billed by the billing department, which also creates an accounts receivable (AR) ledger. The billing document is sent to the customer, and the customer matches the invoice to the delivered goods and pays it. This enters the system as an incoming payment, which should ideally match the accounts receivable ledger. The system automatically clears the AR ledger against the incoming payment, or the payment must be manually cleared during the period-end operations of the AR department.

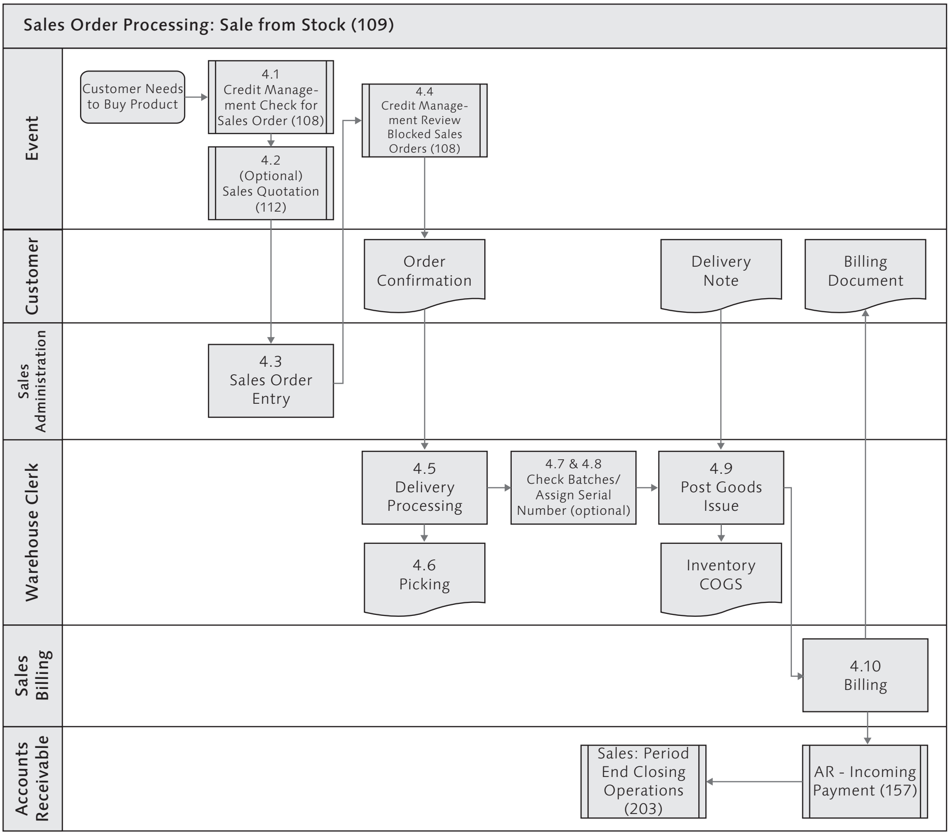

Sales Order Processing: Sale from Stock (109)
Event
Customer
Sales Administration
Warehouse Clerk
Sales Billing
Accounts Receivable
Customer Needs to Buy Product
4.1 Credit Management Check for Sales Order (108)
4.2 (Optional) Sales Quotation (112)
4.4 Credit Management Review Blocked Sales Orders (108)
Order Confirmation
Delivery Note
Billing Document
4.3 Sales Order Entry
4.5 Delivery Processing
4.7 & 4.8 Check Batches/ Assign Serial Number (optional)
4.9 Post Goods Issue
4.6 Picking
Inventory COGS
4.10 Billing
Sales: Period End Closing Operations (203)
AR - Incoming Payment (157)

Figure 5.1 Sales Order Processing: Sale from Stock

The above brief explanation should give you a basic understanding of the SAP General Ledger integration touch-points during the order-to-cash process. In the next section, we will do a similar analysis of how the procure-to-pay process impacts SAP General Ledger.

Now let's recap where the SAP General Ledger accounting is impacted in the sales order process. The accounting entries are illustrated in Table 5.1 and explained below:

- **4.9 Post Goods Issue**
  This leads to the accounting entry debiting COGS and crediting the inventory ledger.

- **4.10 Billing**
  This creates the AR entry debiting the customer and crediting the revenue ledger.
- **Accounts Receivable — Incoming Payment**
  This creates the incoming payment entry, which offsets the customer AR ledger and the cash/early payment discount.
- **Sales: Period End Closing Operations**
  At month-end, if they could not be matched during the posting of the incoming payment, the incoming payments are cleared against the AR ledger.

Steps	Process Flow Heading	COGS	Inventory	Revenue	Customer AR	Bank	Cash/Early Payment Discount
1	Post Goods Issue (4.9)	Dr 1000	Cr 1000				
2	Billing (4.10)			Cr 1500	Dr 1500		
3	A/R – Incoming Payment				Cr 1500	Dr 1480	Dr 20
4	Sales: Period End Closing Operations				Cleared		

Table 5.1 Accounting Entries: Order to Cash Process

5.1.2 Procure-to-Pay

To evaluate the procure-to-pay process, let's again take a simple example where we walk through the process of requesting the procurement of consumables, such as office supplies or printers and associated printer servicing.

Figure 5.2 illustrates the process from an event perspective and provides a detailed linkage of the roles and responsibilities with the SAP ERP process maps. Browse the figure slowly from top to bottom and left to right. The consumable process is triggered by a request for consumable goods or services, which results in a purchase order creation for materials (4.1) and services (4.4). Once the purchase orders have been verified and signed off by the buyer, the purchasing manager releases them per the delegation of authority (4.2). For the material portion, a goods receipt is performed for consumables (4.3) once the warehouse clerk receives them. At this stage, the system debits the expense account in the system and credits the goods received but not the invoiced receipted (GR/IR) clearing account, because this is a consumable material. You could also inventory the consumable materials and then issue them to the respective departments if the consumable materials form a significant portion of your inventory.

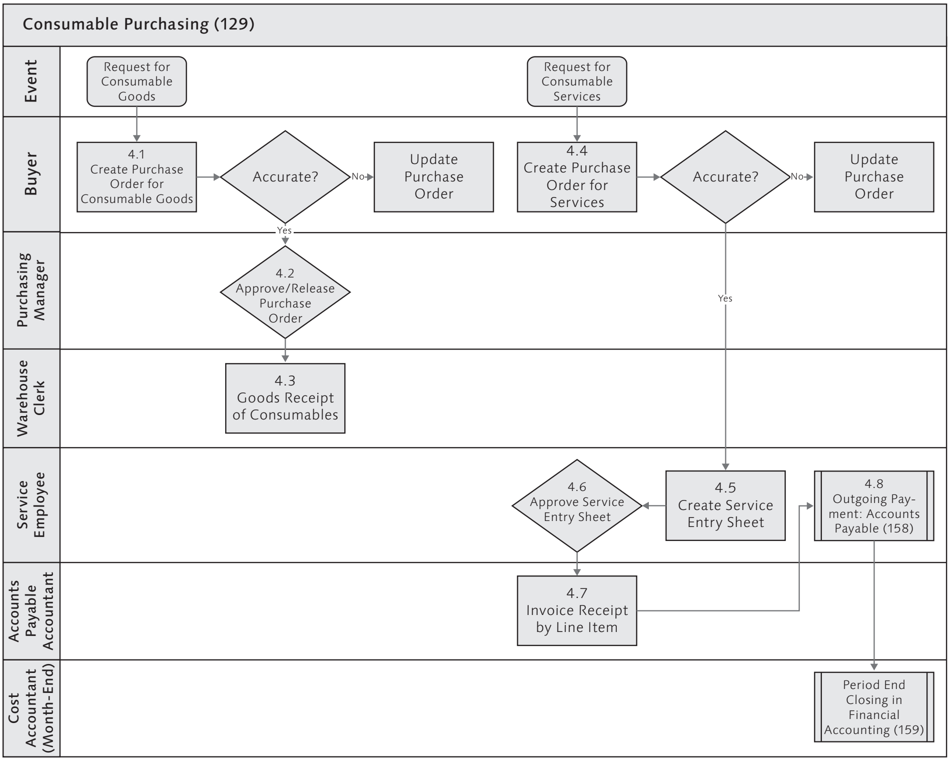

Consumable Purchasing (129)
Event
Buyer
Purchasing Manager
Warehouse Clerk
Service Employee
Accounts Payable Accountant
Cost Accountant (Month-End)
Request for Consumable Goods
Request for Consumable Services
4.1 Create Purchase Order for Consumable Goods
Accurate?
No
Update Purchase Order
4.4 Create Purchase Order for Services
Accurate?
No
Update Purchase Order
Yes
4.2 Approve/Release Purchase Order
Yes
4.3 Goods Receipt of Consumables
4.6 Approve Service Entry Sheet
4.5 Create Service Entry Sheet
4.8 Outgoing Payment: Accounts Payable (158)
4.7 Invoice Receipt by Line Item
Period End Closing in Financial Accounting (159)

Figure 5.2 Procure-to-Pay (Consumable Materials)

For the services portion, the system records the service in the form of a service entry sheet (4.5), which the service employee then approves (4.6). When the service entry sheet is approved, the system updates the accounting (Dr, service expense account; and Cr, GR/IR clearing account). You can choose to segregate the clearing account by materials and services so that a different GR/IR clearing account is recorded for materials and services. Once the accounts payable (AP) accountant receives the invoice, the system records the invoice receipt (4.7) by line item for both the consumable item and the service performed. This clears the GR/IR clearing account and creates a true liability in the name of the service and material vendor. Once the liability is created, the system automatically pays the vendor invoice (4.8), clearing the liability and crediting the bank. This also explains how the system performs the three-way match, matching the goods receipt and service entry sheet against the invoice received from the vendor and the proposed vendor payment amount by the system. The cost accountant (who manages the month end close) takes care of any outstanding balances during the period-end closing process steps in Financial Accounting.

Table 5.2 summarizes the accounting entries for the procure-to-pay process.

Steps	Process Flow Heading	Inventory/ Expense/ Service	GR/IR Clearing	Vendor AP	Bank	Cash/Early Payment Discount
1	Goods Receipt/ Service Entry Sheet (4.3/4.6)	Dr 1000	Cr 1000			
2	Invoice Receipt (4.7)		Dr 1000	Cr 1500		
3	A/P – Outgoing Payment (4.8)			Dr 1500	Cr 1480	Dr 20
4	Sales: Period End Closing Operations		Cleared	Cleared		

Table 5.2 Accounting Entries: Order-to-Cash Process

5.1.3 Effect on SAP General Ledger

As you surely noticed, the first two steps in both Tables 5.1 and 5.2 are not in financial subledgers, and must be configured in Sales and Distribution and Materials Management, respectively. The design of the AR and AP ledgers directly impacts the general ledger, because you have to configure the cash discount and early discount accounts.

5.2 Order-to-Cash Scenarios

In this section, we cover the various order-to-cash scenarios with which organizations typically deal. We explain the possible variations that can be configured in the system, and then use these scenarios to explain the general ledger integration of order-to-cash processes.

We explain the following scenarios in more detail in this section:

- Sales of non-stock items with order-specific procurement
- Sales processing using a third party with shipping notification
- Sales order processing with customer down payment
- Cross-company sales order processing
- Free-of-charge delivery
- Customer consignment processing

These scenarios cover the entire breadth of the variations that are possible in sales order processing for a typical company, and will provide you with sufficient understanding of the underlying SAP ERP objects, enabling you to move them around and cater to your unique business requirements.

5.2.1 Sales of Non-Stock Items with Order-Specific Procurement

Because we examined a make-to-stock scenario in our example in Section 5.1.1, let's illustrate the sales of a non-stock item with order-specific procurement tied to the non-stock item. This is a hybrid of the procure-to-pay and order-to-cash scenarios, and is typically used by wholesale distributors who buy the material from one vendor and sell it to the customer at a profit, with very low margins. However, sometimes a nondistributor might have to do this as an exception, such as, for example, when the material is not readily available, but the customer order needs to be filled. Figure 5.3 shows a diagram of this scenario.

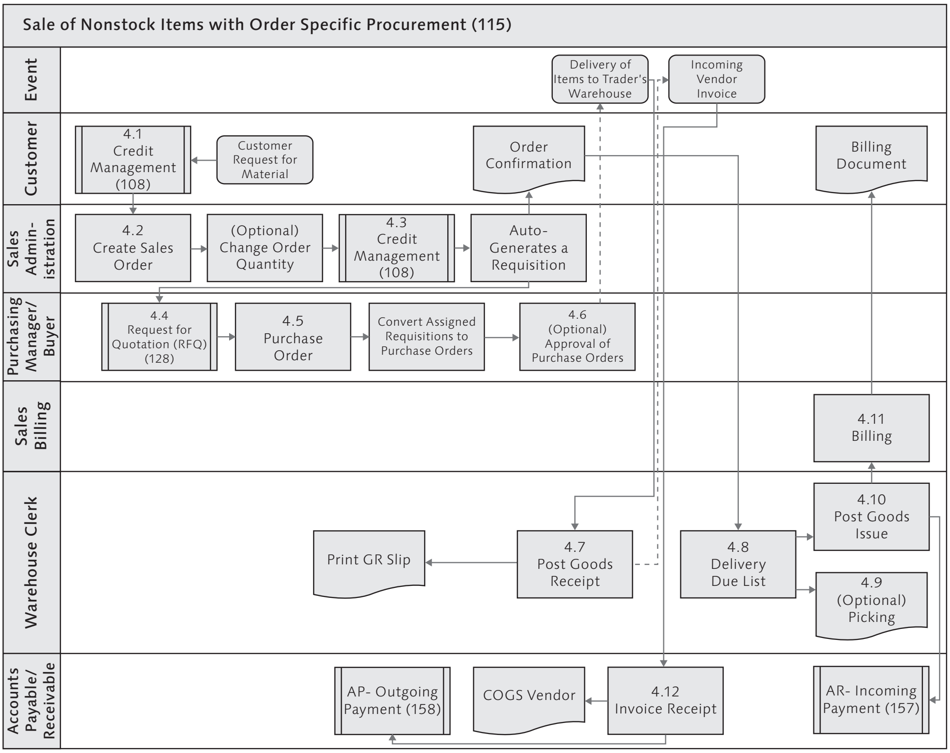

Sale of Nonstock Items with Order Specific Procurement (115)
Event
Delivery of Items to Trader's Warehouse
Incoming Vendor Invoice
Customer
4.1 Credit Management (108)
Customer Request for Material
Order Confirmation
Billing Document
Sales Admin-istration
4.2 Create Sales Order
(Optional) Change Order Quantity
4.3 Credit Management (108)
Auto-Generates a Requisition
Purchasing Manager/ Buyer
4.4 Request for Quotation (RFQ) (128)
4.5 Purchase Order
Convert Assigned Requisitions to Purchase Orders
4.6 (Optional) Approval of Purchase Orders
Sales Billing
4.11 Billing
Warehouse Clerk
4.10 Post Goods Issue
Print GR Slip
4.7 Post Goods Receipt
4.8 Delivery Due List
4.9 (Optional) Picking
Accounts Payable/ Receivable
AP- Outgoing Payment (158)
COGS Vendor
4.12 Invoice Receipt
AR- Incoming Payment (157)

Figure 5.3 Sales of Non-Stock Items with Order-Specific Procurement

The only difference between this and the scenario discussed in Section 5.1.1 is the auto-generation of the purchase requisition based on the order creation. The purchase requisition allows you to trigger the request for quotation, and allows you to transfer responsibility directly to the procurement department, which must then ensure the delivery of items to the warehouse. Once the order comes to the warehouse, it follows the normal delivery and invoicing process to the customer. On closely examining the scenario, you should notice that the accounting processes remain the same for the following:

- Post Goods Receipt (4.7)
- Post Goods Issue (4.10)
- Billing (4.11)
- Invoice Receipt (4.12)
- AP Outgoing Payment
- AR Incoming Payment

5.2.2 Sales Processing Using a Third Party with Shipping Notification

Now let's take the previous scenario one step further and allow the vendor to ship the order directly to the customer, without receiving the material on the company premises. This is also known as a *drop ship scenario*.

Figure 5.4 shows the supply chain procedures as the sales order is processed by the vendor. Initially, a third-party sales order is created after the quotation has been converted to the sales order, which triggers the purchasing process. Once the purchase order is approved, a shipping notification is sent to the vendor, who then drop ships the product to the third party.

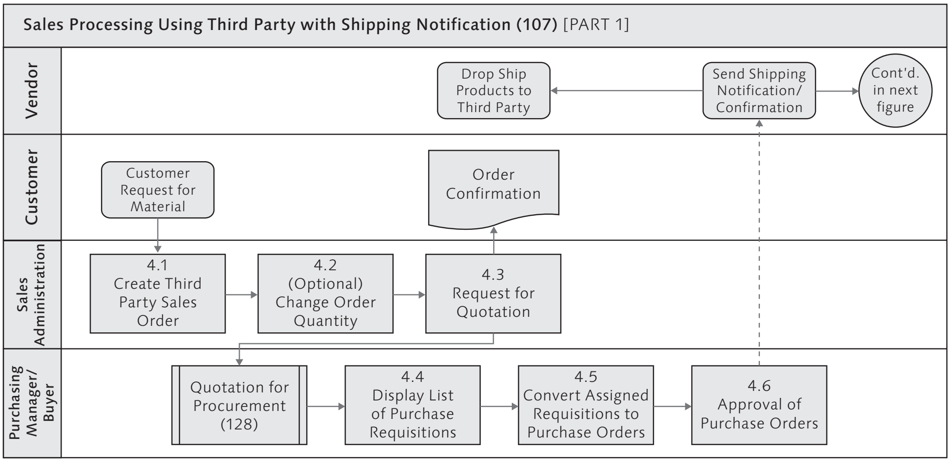

Sales Processing Using Third Party with Shipping Notification (107) [PART 1]
Vendor
Customer
Sales Administration
Purchasing Manager/ Buyer
Drop Ship Products to Third Party
Send Shipping Notification/ Confirmation
Cont'd. in next figure
Customer Request for Material
Order Confirmation
4.1 Create Third Party Sales Order
4.2 (Optional) Change Order Quantity
4.3 Request for Quotation
Quotation for Procurement (128)
4.4 Display List of Purchase Requisitions
4.5 Convert Assigned Requisitions to Purchase Orders
4.6 Approval of Purchase Orders

Figure 5.4 Sales Processing Using a Third Party

Figure 5.5 shows the accounting transactions that happen as a result of the statistical goods receipt (which is used because you never actually received the goods). These transactions happen in the system once the material has been delivered to the customer.

When the vendor sends the invoice, you can perform the billing to the customer and create the vendor invoice. These two documents then allow you to create AR and AP ledgers, and then the period-end closing operations follow.

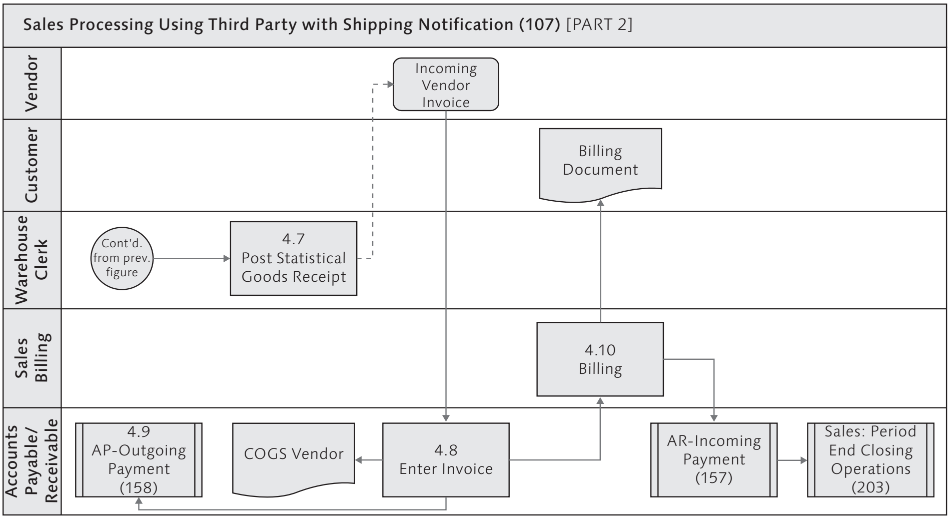

Sales Processing Using Third Party with Shipping Notification (107) [PART 2]
Vendor
Customer
Warehouse Clerk
Sales Billing
Accounts Payable/ Receivable
Incoming Vendor Invoice
Billing Document
Cont'd. from prev. figure
4.7 Post Statistical Goods Receipt
4.10 Billing
4.9 AP-Outgoing Payment (158)
COGS Vendor
4.8 Enter Invoice
AR-Incoming Payment (157)
Sales: Period End Closing Operations (203)

Figure 5.5 Accounting Documents in the Drop Ship Process

Note

These types of transactions can theoretically be used maliciously as well. For example, consider a situation where you drop ship goods to the customer, and the customer drop ships the goods back to you. The goods never move, and both you and the shell customer record additional sales revenue; plus, you have confused the system with these unnecessary transactions. Because of this, these types of transactions should be closely audited. Tread very carefully, especially in scenarios where a vendor is also a customer, because this will raise a red flag.

5.2.3 Sales Order Processing with Customer Down Payment

In this scenario, the credit worthiness of the customer is not sufficient for him to be given the goods without full or partial payment. (In make to order scenarios, you typically require some sort of down payment to book the order from the customer.) The requirement to receive a down payment prior to order fulfillment changes the way transactions are recorded, as shown in Figure 5.6. With the billing plan functionality, which can be created during the sales order entry, you can connect the sales and financial transactions. Perform the billing to the customer requesting the down payment, and the down payment is recorded in the system as a special general ledger indicator once the AR department receives it.

Now you start making the order for the customer and process the order (delivery, picking, batch, serial number), posting the goods issue, which credits the inventory ledger and debits the COGS ledger. Bill the remaining portion of the dollar amount by following the billing plan and adjusting the down payment already received.

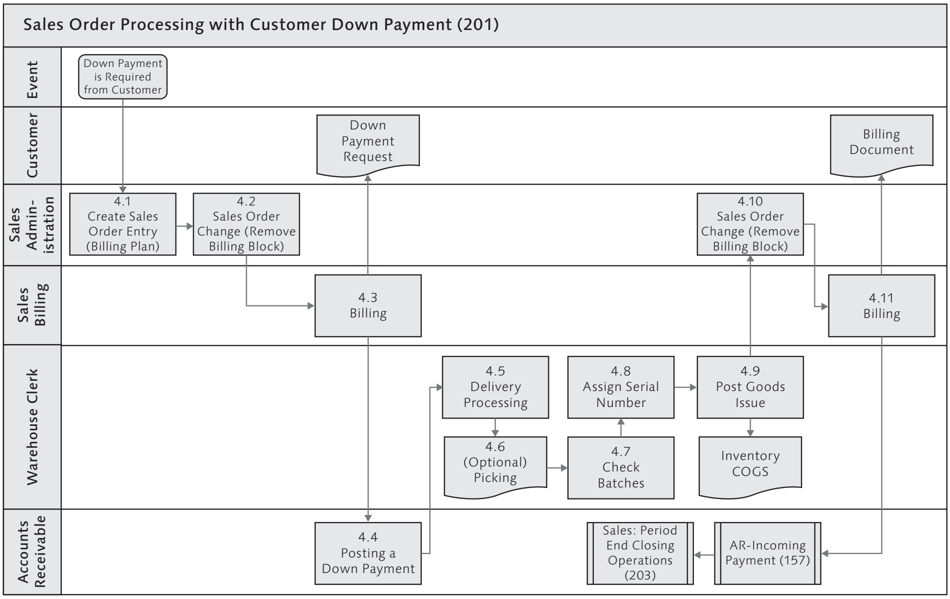

Sales Order Processing with Customer Down Payment (201)
Event
Customer
Sales Admin-istration
Sales Billing
Warehouse Clerk
Accounts Receivable
Down Payment is Required from Customer
Down Payment Request
Billing Document
4.1 Create Sales Order Entry (Billing Plan)
4.2 Sales Order Change (Remove Billing Block)
4.10 Sales Order Change (Remove Billing Block)
4.3 Billing
4.11 Billing
4.5 Delivery Processing
4.8 Assign Serial Number
4.9 Post Goods Issue
4.6 (Optional) Picking
4.7 Check Batches
Inventory COGS
4.4 Posting a Down Payment
Sales: Period End Closing Operations (203)
AR-Incoming Payment (157)

Figure 5.6 Sales Order Processing with Customer Down Payment

5.2.4 Cross-Company Sales Order Processing

Figure 5.7 shows a business scenario where a sales order is created with company code 1000, whereas the delivery happens via production plant 1010, which belongs to company code 1010. In this case, in addition to the normal invoices that are generated from company code 1000, you must also create an intercompany billing document (from company code 1010 to company code 1000), followed by an intercompany payment (from company code 1000 to company code 1010) to ensure proper accounting.

This business scenario leads to the business process steps documented in Figure 5.8. Once the sales order is created and confirmed, the processing of the sales order is done from a different company code, and the post goods issue leads to the creation of the delivery note and bill of lading, both of which go to the customer. Also based on the receipt of the goods at the customer site, a billing document is created by the original company code (through which the sales order is created), which automatically creates an intercompany billing document. While posting the incoming payment, you can automatically post the intercompany details.

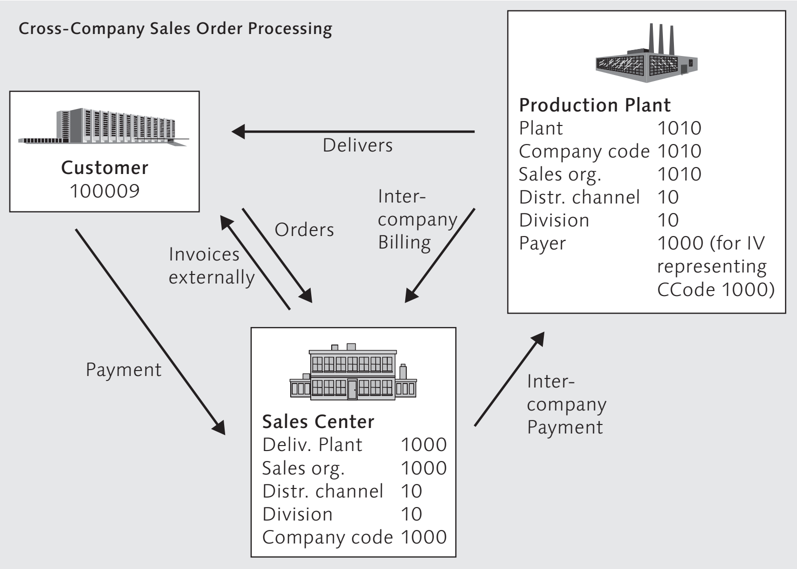

Cross-Company Sales Order Processing
Customer
100009
Delivers
Orders
Inter-company Billing
Invoices externally
Payment
Inter-company Payment
Production Plant
Plant 1010
Company code 1010
Sales org. 1010
Distr. channel 10
Division 10
Payer 1000 (for IV representing CCode 1000)
Sales Center
Deliv. Plant 1000
Sales org. 1000
Distr. channel 10
Division 10
Company code 1000

Figure 5.7 Cross-Company Sales Order Processing

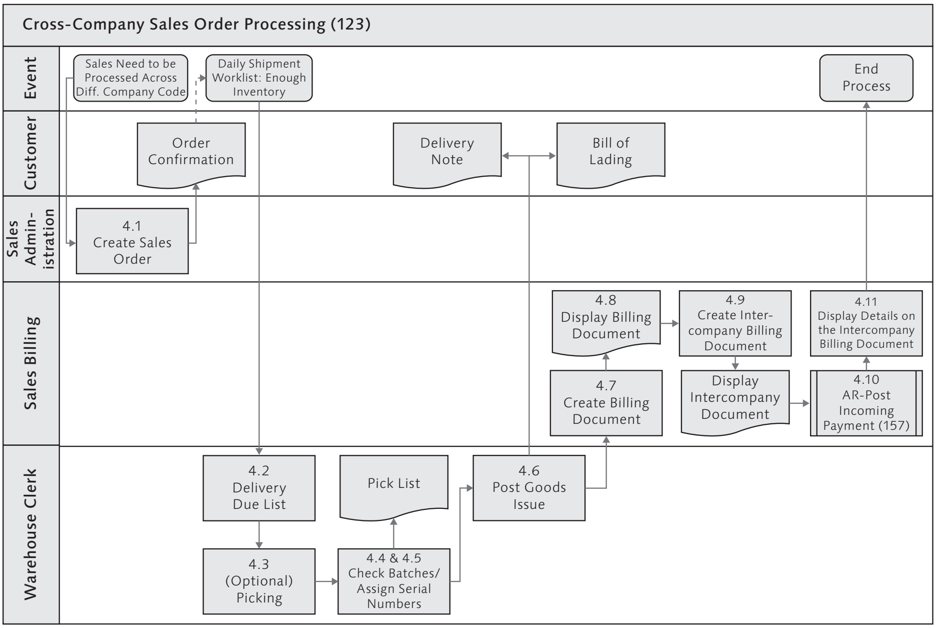

Cross-Company Sales Order Processing (123)
Event
Customer
Sales Admin-istration
Sales Billing
Warehouse Clerk
Sales Need to be Processed Across Diff. Company Code
Daily Shipment Worklist: Enough Inventory
End Process
Order Confirmation
Delivery Note
Bill of Lading
4.1 Create Sales Order
4.8 Display Billing Document
4.9 Create Inter-company Billing Document
4.11 Display Details on the Intercompany Billing Document
4.7 Create Billing Document
Display Intercompany Document
4.10 AR-Post Incoming Payment (157)
4.2 Delivery Due List
Pick List
4.6 Post Goods Issue
4.3 (Optional) Picking
4.4 & 4.5 Check Batches/ Assign Serial Numbers

Figure 5.8 Cross-Company Sales Order Processing

5.2.5 Free-of-Charge Delivery

Sometimes you have to provide samples or deliver certain goods to customers free of charge. The only difference between this and a normal sales order is that a unique sales order type that is non–billing relevant is created. All of the subsequent steps — order confirmation, creation of delivery, picking, and post goods issue — are the same as the other processes. During the post goods issue, the system credits the inventory ledger and debits the appropriate profit and loss account, which is different from the usual COGS account. When the goods are delivered, you do not need to create any billing, because it is not relevant for this delivery. Figure 5.9 shows the process of free-of-charge delivery with the various steps highlighted.

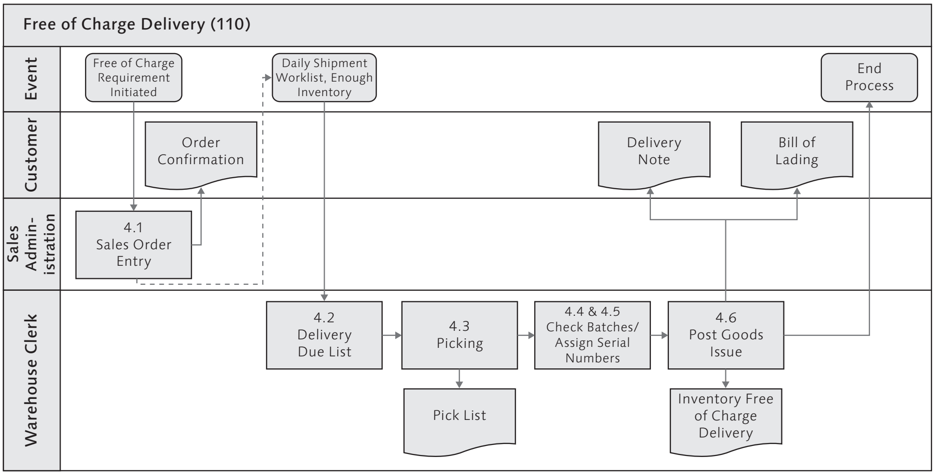

Free of Charge Delivery (110)
Event
Customer
Sales Admin-istration
Warehouse Clerk
Free of Charge Requirement Initiated
Daily Shipment Worklist, Enough Inventory
End Process
Order Confirmation
Delivery Note
Bill of Lading
4.1 Sales Order Entry
4.2 Delivery Due List
4.3 Picking
4.4 & 4.5 Check Batches/ Assign Serial Numbers
4.6 Post Goods Issue
Pick List
Inventory Free of Charge Delivery

Figure 5.9 Free-of-Charge Delivery

5.2.6 Customer Consignment Process

Consignment goods are stored at the customer location but owned by your company. The customer is not obliged to pay for these goods until they use them.

There are four types of transactions in the customer consignment process:

- **Consignment fill-up**
  This process is used to replenish the customer consignment stock, based on the request from the customer.
- **Consignment issue**
  This allows you to issue the consignment stock to customer, enabling you to trigger the billing for the consignment stock. The inventory moves from your books to becoming the property of the customer when you create a consignment issue order.

- **Consignment pick-up**
  Any consignment goods stored at the customer's warehouse that haven't been used can be reposted to your company's warehouse with a consignment pick-up. If the customer returns consignment stock to you, you record the transaction in the system by creating a consignment pick-up order. When a goods issue is posted, the relevant quantity is deducted from the customer's special stock and is added back into your regular stock at the plant where the goods are returned. Your total valuated stock remains the same, because the returned stock was regarded as part of your own inventory, even while it was at the customer's premises. No billing is performed for this transaction.
- **Consignment return**
  If the consignment material is defective or the customer needs to return it for some other reason, it is done using a consignment return order. The difference between the consignment return and the consignment pick-up is whether the customer has used the consignment stock and wants to return it (consignment return) or whether the customer never used the stock and wants it to be removed from the premises (customer pick-up).

Figure 5.10 shows the process flow chart for consignment fill-up and consignment issue. Initially, you receive a customer fill-up order allowing you to maintain the inventory levels requested by your customer. You perform the order fulfillment by performing the picking, assigning the serial number, and performing the post goods issue. This fills up the consignment stock, moving it from the normal stock.

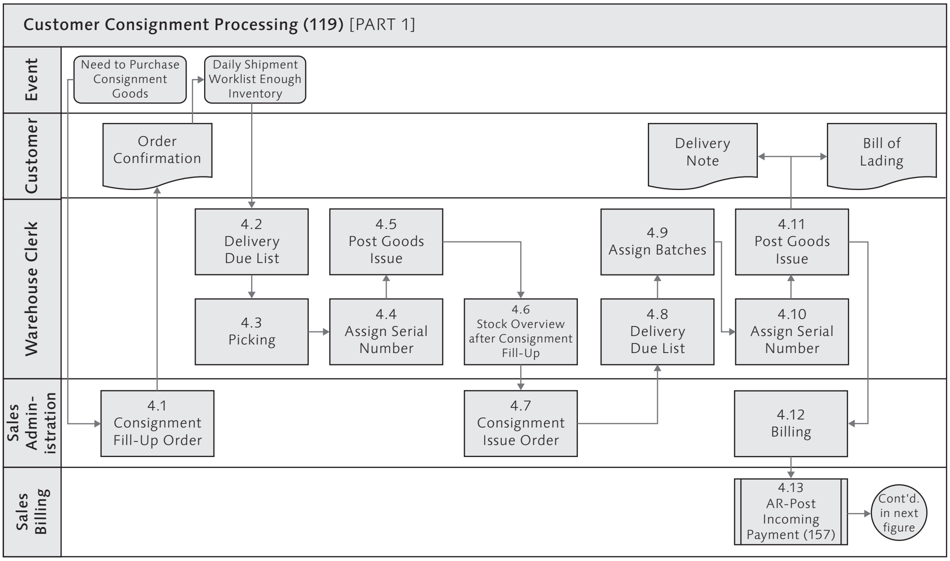

Customer Consignment Processing (119) [PART 1]
Event
Customer
Warehouse Clerk
Sales Admin-istration
Sales Billing
Need to Purchase Consignment Goods
Daily Shipment Worklist Enough Inventory
Order Confirmation
Delivery Note
Bill of Lading
4.2 Delivery Due List
4.5 Post Goods Issue
4.9 Assign Batches
4.11 Post Goods Issue
4.3 Picking
4.4 Assign Serial Number
4.6 Stock Overview after Consignment Fill-Up
4.8 Delivery Due List
4.10 Assign Serial Number
4.1 Consignment Fill-Up Order
4.7 Consignment Issue Order
4.12 Billing
4.13 AR-Post Incoming Payment (157)
Cont'd. in next figure

Figure 5.10 Customer Consignment Processing

When the customer wants to use the consignment stock, create a consignment issue order, finalizing the delivery due list, assigning batches and serial numbers, and posting the goods issue (removing it from your inventory to be issued to the customer). Once the delivery note and bill of lading are received, you can perform billing for the consignment stock, which generates the AR ledger. Subsequently, you receive the payment and match it against this ledger.

Figure 5.11 shows you the customer consignment pick-up process, which results in the conversion of the stock to normal stock and then its return via the consignment return order. The billing is only completed when you enter the goods receipt in the system.

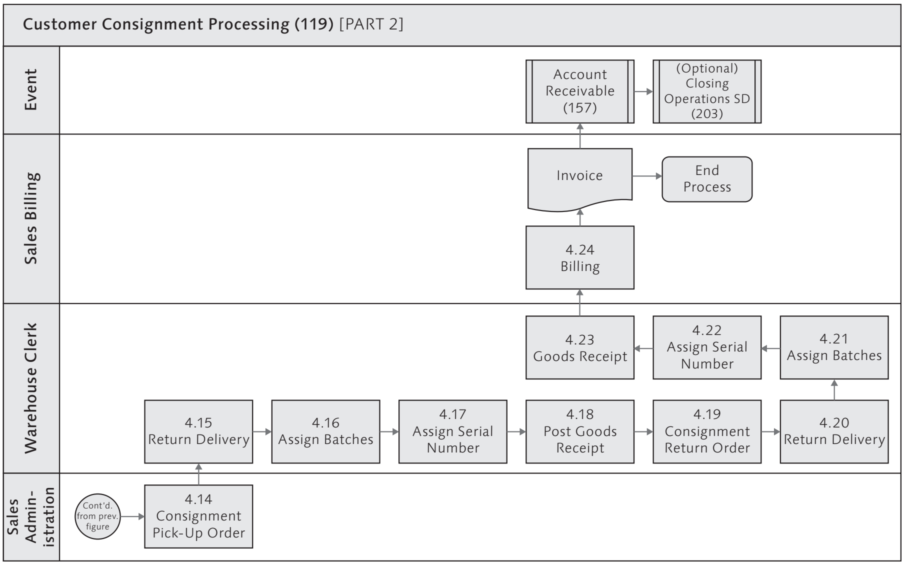

Customer Consignment Processing (119) [PART 2]
Event
Sales Billing
Warehouse Clerk
Sales Admin-istration
Account Receivable (157)
(Optional) Closing Operations SD (203)
Invoice
End Process
4.24 Billing
4.23 Goods Receipt
4.22 Assign Serial Number
4.21 Assign Batches
4.15 Return Delivery
4.16 Assign Batches
4.17 Assign Serial Number
4.18 Post Goods Receipt
4.19 Consignment Return Order
4.20 Return Delivery
Cont'd. from prev. figure
4.14 Consignment Pick-Up Order

Figure 5.11 Customer Consignment Processing

In this section, you were exposed to the variations of the order-to-cash processes, whereas we kept the purchasing process more or less the same. In Section 5.3, we explore some of the variations that are possible in the purchasing processes.

5.3 Procure-to-Pay Scenarios

Understanding the variations of the procure-to-pay scenarios will allow you to tailor your business processes to your own requirements. In the sections that follow, we cover these scenarios:

- Procurement contract
- Subcontracting
- Procurement and consumption of consigned inventory

Finally, we conclude with a brief discussion of some of the common terms that you might encounter in procure to pay scenarios.

5.3.1 Procurement Contract

Contracts are agreements with vendors to supply materials or services under negotiated conditions and within a certain period. A procurement contract is implemented if you need to buy goods on a regular basis.

Contracts can be:

- **Quantity contracts**
  Involves a cap on the quantity of a product to be ordered.
- **Value contracts**
  Involves a cap on the value of the purchase of goods or services.

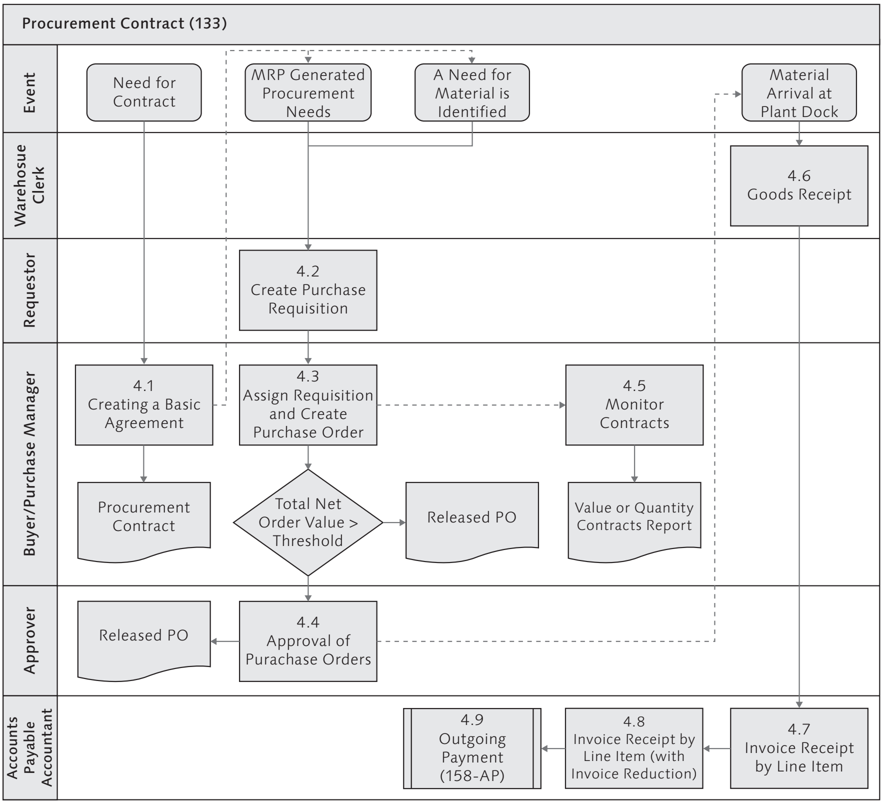

Procurement Contract (133)
Event
Warehosue Clerk
Requestor
Buyer/Purchase Manager
Approver
Accounts Payable Accountant
Need for Contract
MRP Generated Procurement Needs
A Need for Material is Identified
Material Arrival at Plant Dock
4.6 Goods Receipt
4.2 Create Purchase Requisition
4.1 Creating a Basic Agreement
4.3 Assign Requisition and Create Purchase Order
4.5 Monitor Contracts
Procurement Contract
Total Net Order Value > Threshold
Released PO
Value or Quantity Contracts Report
Released PO
4.4 Approval of Purachase Orders
4.9 Outgoing Payment (158-AP)
4.8 Invoice Receipt by Line Item (with Invoice Reduction)
4.7 Invoice Receipt by Line Item

Figure 5.12 Procurement Contract

Figure 5.12 shows you the procurement contract scenario in step-by-step detail. Contracts allow you to generate purchase orders or purchase requisitions at regular intervals or based on the MRP Generated Procurement Needs. Additional controls can be established for the release of purchase orders, per the appropriate delegation of authority and based on the value of the order. Once the purchase order is approved, it is communicated to the vendor. When the material arrives at your dock, a goods receipt is created. The invoice receipts are then processed by line item, followed by the payment run, which clears the invoice created for the vendor.

5.3.2 Subcontracting

The subcontracting process allows you to send raw materials to a vendor for specialized manufacturing processes, and then receive the value-added finished material back into inventory. These products are then assembled into the final product that your company makes.

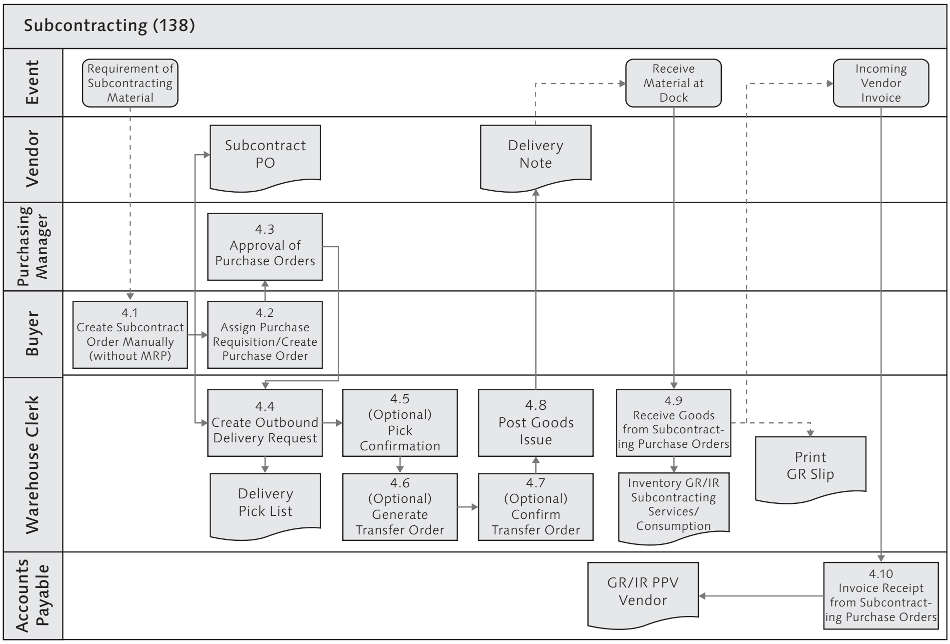

Subcontracting (138)
Event
Vendor
Purchasing Manager
Buyer
Warehouse Clerk
Accounts Payable
Requirement of Subcontracting Material
Receive Material at Dock
Incoming Vendor Invoice
Subcontract PO
Delivery Note
4.3 Approval of Purchase Orders
4.1 Create Subcontract Order Manually (without MRP)
4.2 Assign Purchase Requisition/Create Purchase Order
4.4 Create Outbound Delivery Request
4.5 (Optional) Pick Confirmation
4.8 Post Goods Issue
4.9 Receive Goods from Subcontracting Purchase Orders
Print GR Slip
Delivery Pick List
4.6 (Optional) Generate Transfer Order
4.7 (Optional) Confirm Transfer Order
Inventory GR/IR Subcontracting Services/ Consumption
GR/IR PPV Vendor
4.10 Invoice Receipt from Subcontracting Purchase Orders

Figure 5.13 Subcontracting

Figure 5.13 shows the subcontracting process in more detail. Based on the requirement of subcontracting material, the buyer creates the subcontract order manually, which sends the subcontract purchase order (PO) to the vendor, after the purchase requisition and purchase order have been approved. Next, an outbound delivery is created with reference to the purchase order, and you can perform the picking and generate a stock transfer order (if needed). The post goods issue allows you to send the material to a vendor along with a delivery note attached to the delivery. This reduces the value of inventory at the cost of the raw material. The vendor performs the subcontracting process and then sends the material back, and you receive the goods against the subcontracting purchase order. This increases the inventory, due to the cost of raw material and the value addition performed by the vendor. The vendor is subsequently paid based on the vendor liability recorded when you receive the invoice receipt, which offsets the GR/IR clearing account populated during goods receipt.

5.3.3 Procurement and Consumption of Consigned Inventory

This scenario is very similar to the customer consignment processing scenario discussed in Section 5.2.6, with the crucial difference that it is undertaken with the vendor rather than the customer. Figure 5.14 shows you the procurement and consumption of consigned inventory process steps. Initially, a purchase information record is created for consignment, which creates the scheduling agreement and the source list. Once the demand of consignment material is made known to the vendor, the vendor can schedule lines to allow you to receive material at your dock. After you post goods receipts, a transfer posting is made for vendor consigned stock. This triggers a vendor invoice, which is then invoice receipted for the line item that was withdrawn for use. The payment program automatically pays the vendor, and period-end closing transactions are performed to clear the GR/IR and other clearing accounts.

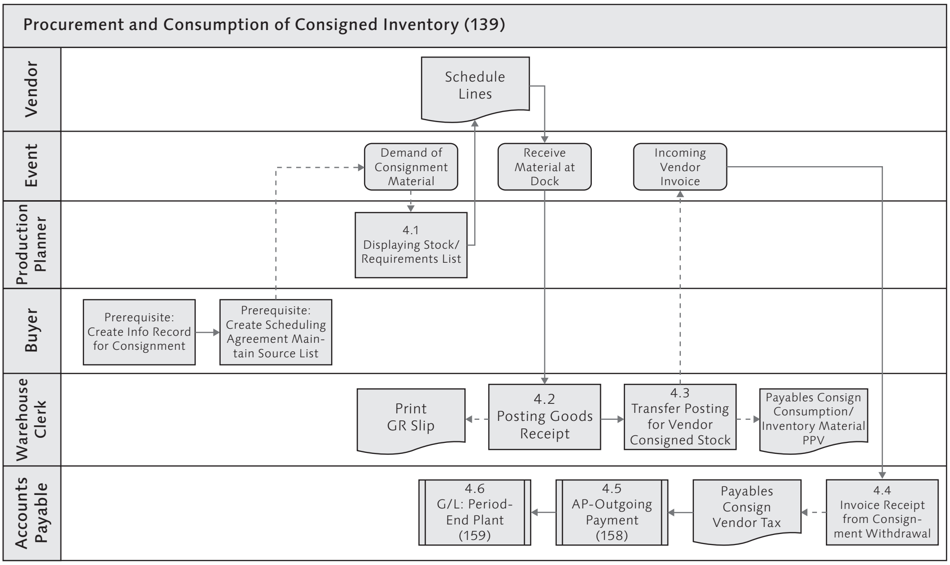

Procurement and Consumption of Consigned Inventory (139)
Vendor
Event
Production Planner
Buyer
Warehouse Clerk
Accounts Payable
Schedule Lines
Demand of Consignment Material
Receive Material at Dock
Incoming Vendor Invoice
4.1 Displaying Stock/ Requirements List
Prerequisite: Create Info Record for Consignment
Prerequisite: Create Scheduling Agreement Maintain Source List
Print GR Slip
4.2 Posting Goods Receipt
4.3 Transfer Posting for Vendor Consigned Stock
Payables Consign Consumption/ Inventory Material PPV
4.6 G/L: Period-End Plant (159)
4.5 AP-Outgoing Payment (158)
Payables Consign Vendor Tax
4.4 Invoice Receipt from Consignment Withdrawal

Figure 5.14 Procurement and Consumption of Consigned Inventory

5.3.4 Common SAP Terms Related to Procure-to-Pay Scenarios

In this section, we define some of the common SAP terms used in Materials Management and Sales and Distribution when configuring procure-to-pay scenarios. We've broken this discussion up into three sections: item categories, conditions and price determinations, and condition techniques.

Item Categories

The item category determines whether the material defined in a purchase order item:

- Requires a material number
- Requires an account assignment
- Is to be managed as a stock item
- Requires a goods receipt (GR) and/or an invoice receipt (IR)

Table 5.3 shows the common item categories available for customization in standard SAP ERP.

Item Category	Characteristics
Standard	▸ Goods and invoices can be received
Consignment	▸ Material number necessary ▸ No account assignments ▸ Material kept in stock ▸ GR necessary ▸ Invoice receipt not necessary
Subcontracting	▸ Goods can be received ▸ Invoice receipt necessary
Stock transfer	▸ Material number necessary ▸ GR necessary ▸ No invoice receipt
Third Party	▸ Account assignment necessary ▸ GR and IR can take place
Limit	▸ Account assignment not necessary ▸ GR not necessary ▸ IR necessary ▸ Document type FO necessary

Table 5.3 Common Item Categories

Conditions and Price Determination

There are three types of conditions and prices in Materials Management:

- **Gross price**
  Price without taking any possible discounts and surcharges into account

- **Net price**
  Price taking any applicable discounts and surcharges into account
- **Effective price**
  Net price after deduction of cash discount, with allowance for any miscellaneous provisions, delivery costs, and nondeductible taxes

Condition Technique

You use the condition technique to determine the purchase price by systematic consideration of all of the relevant pricing elements. The following components are involved in price determination:

- **Condition type**
  This allows you to segregate different types of conditions, such as price, discount, surcharges, etc.
- **Condition table**
  This allows you to group together condition types (for, example the customer group and price group can be combined in one condition table), so that you can use them to determine the general ledger accounts.
- **Access sequence**
  This allows you to determine which condition table takes preference over the others. Generally, the more specific condition tables (with the maximum number of parameters) are marked with a lower access sequence number.
- **Calculation schema**
  This allows you to denote the calculation formula for how the pricing gets determined.

This is very similar to the pricing schema used in Sales and Distribution, which is explained in detail in Section 5.5.1.

Table 5.4 shows some of the common condition types that are used in pricing purchase orders.

Condition Type	Condition Class	Description
PB00	Price	Gross price
RB00	Discount/surcharge	Absolute discount
ZB00	Discount/surcharge	Absolute surcharge
FRB1	Discount/surcharge	Absolute freight amount
ZOA1	Discount/surcharge	Percentage duty amount
SKTO	Discount/surcharge	Cash discount
NAVS	Taxes	Nondeductible input tax

Table 5.4 Common Condition Types

5.4 SAP General Ledger Customization Settings for Order-to-Cash

As you've seen, there are many variations of the business processes we enumerated in Sections 5.2 and 5.3; the beauty of SAP ERP is that you can customize it to your heart's content. In Section 5.4, we take a look at how you can customize the settings for your order-to-cash scenarios.

Figure 5.15 shows the menu path for configuring the integration of SAP General Ledger with Sales and Distribution: IMG • Financial Accounting (New) • General Ledger Accounting (New) • Periodic Processing • Integration • Sales and Distribution.

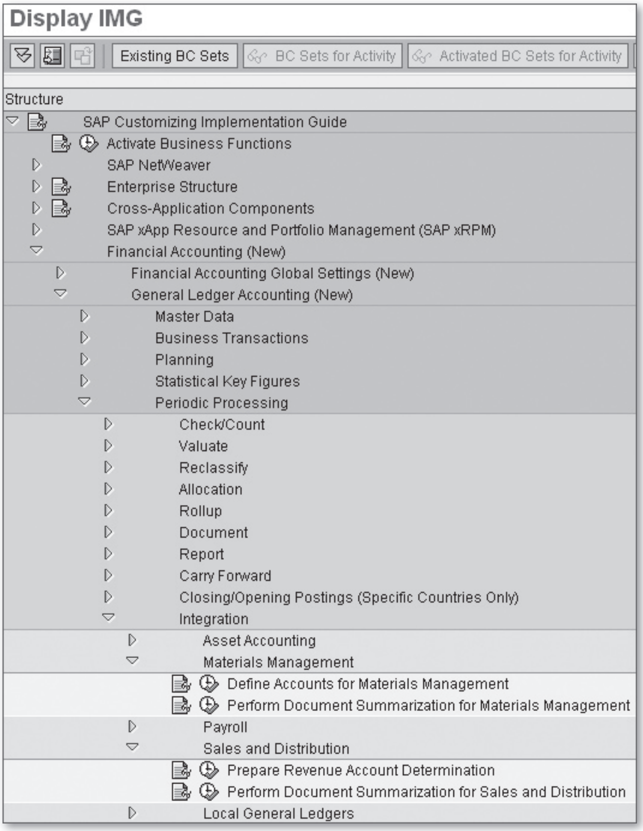

Display IMG
Existing BC Sets
BC Sets for Activity
Activated BC Sets for Activity
Structure
SAP Customizing Implementation Guide
Activate Business Functions
SAP NetWeaver
Enterprise Structure
Cross-Application Components
SAP xApp Resource and Portfolio Management (SAP xRPM)
Financial Accounting (New)
Financial Accounting Global Settings (New)
General Ledger Accounting (New)
Master Data
Business Transactions
Planning
Statistical Key Figures
Periodic Processing
Check/Count
Valuate
Reclassify
Allocation
Rollup
Document
Report
Carry Forward
Closing/Opening Postings (Specific Countries Only)
Integration
Asset Accounting
Materials Management
Define Accounts for Materials Management
Perform Document Summarization for Materials Management
Payroll
Sales and Distribution
Prepare Revenue Account Determination
Perform Document Summarization for Sales and Distribution
Local General Ledgers

Figure 5.15 Integration of SAP General Ledger and Sales and Distribution

In the following sections, we discuss the processes of preparing revenue account determination and performing document summarization for Sales and Distribution.

5.4.1 Prepare Revenue Account Determination

The account assignment in Sales and Distribution depends on condition tables and the access sequence structure of pricing. We discuss both of these below, and conclude with a discussion of the account determination schema.

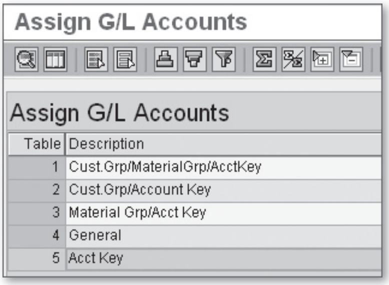
Menu Path and Transaction Code

Menu path: IMG • Financial Accounting (New) • General Ledger Accounting (New) • Periodic Processing • Integration • Sales and Distribution • Prepare Revenue Account Determination

Transaction code: VKOA

Access Sequence

Figure 5.16 shows the access sequence screen where you can define the condition tables and their parameters.


Assign G/L Accounts

Assign G/L Accounts

Table	Description
1	Cust.Grp/MaterialGrp/AcctKey
2	Cust.Grp/Account Key
3	Material Grp/Acct Key
4	General
5	Acct Key

Figure 5.16 Assignment of SAP General Ledger Accounts

You can also define your own tables and then define a particular access sequence.

Note

The most specific condition table is put in the beginning so that the correct general ledger account can be determined.

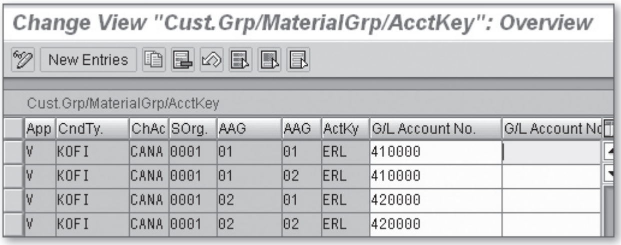
In the example shown in Figure 5.16, the assignment of the general ledger account with the customer group (Cust. Grp), material group (Material Grp), and account key (Acct Key) is checked first, the customer group and account key combination is checked next, and, finally, the material group and account key are checked in the transaction data to determine if a general ledger account is maintained for the combination.

If the conditions are not met during the sales order processing, the system goes to the next level of the access sequence, which is broader (i.e., has less specific characteristics for the condition type) than the previous one. If the access sequence number 1 does not have any entries maintained for the table, then the system goes to access sequence number 2, and so on. This sequence is used to determine the general ledger account when processing which sales account should be posted to for the condition type.

Condition Tables

If you double-click on Table 1 in Figure 5.16, you see the screen shown in Figure 5.17, which shows the account assignment details for customer group, material group, and account key combination. You can define your general ledger account here to assign this combination a sales account. These are also known as the condition tables, where you need to maintain the general ledger associated with each condition type combination.

For Sales and Distribution, you have greater flexibility in defining your pricing procedure by defining your own pricing condition tables, which can then be mapped to the access sequences. This enables you to map complex pricing arrangements with your customers. The account key is derived from the condition type that identifies the business transaction.



Change View "Cust.Grp/MaterialGrp/AcctKey": Overview

Cust.Grp/MaterialGrp/AcctKey

App	CndTy.	ChAc	SOrg.	AAG	AAG	ActKy	G/L Account No.	G/L Account N
V	KOFI	CANA	0001	01	01	ERL	410000	
V	KOFI	CANA	0001	01	02	ERL	410000	
V	KOFI	CANA	0001	02	01	ERL	420000	
V	KOFI	CANA	0001	02	02	ERL	420000	

Figure 5.17 Assignment of General Ledger Accounts

General Ledger Account Determination Schema

Figure 5.18 shows the schematic of configuring Sales and Distribution account determination and how it integrates with pricing. Overall, you must assign general ledger accounts by chart of accounts, account determination, sales organization, any additional fields (Customer Group, Material Group, and other parameters that need to be selected in the access sequence outline), and account keys (which represent the different sales scenarios such as revenue, deductions, etc.). The account determinations can be either KOFI or KOFK (with controlling assignments).

Note

You can make pricing as complex as you want, but this might have disastrous consequences in terms of performance and user comprehension. An overly complicated system will result in overrides to the automatic pricing, making it meaningless in the overall scheme of things. Before you implement pricing, try to simplify it. (Especially when implementing a complex pricing schema in conjunction with SAP CRM — this could drastically affect performance.)

Remember: just because you *can* customize it doesn't mean that you *should customize it*.

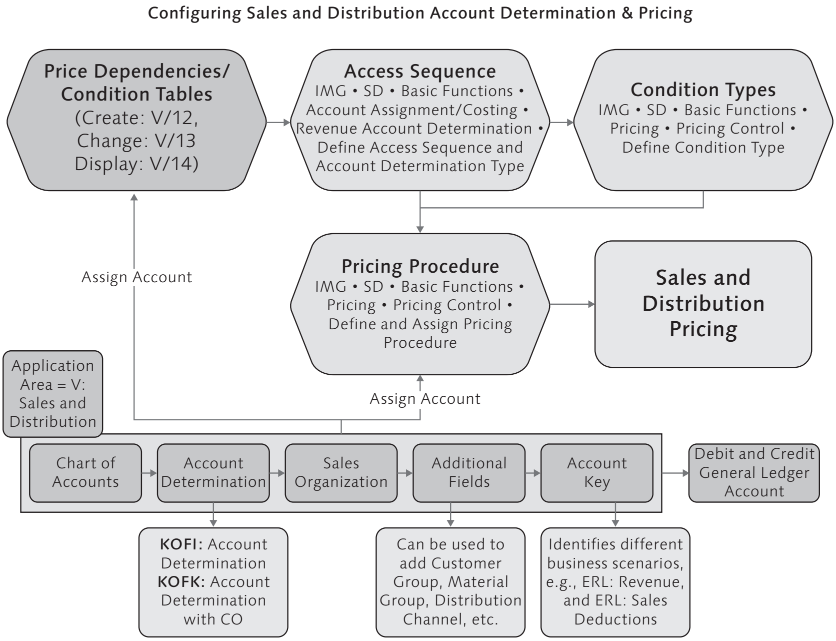

Configuring Sales and Distribution Account Determination & Pricing
Price Dependencies/ Condition Tables (Create: V/12, Change: V/13 Display: V/14)
Access Sequence IMG • SD • Basic Functions • Account Assignment/Costing • Revenue Account Determination • Define Access Sequence and Account Determination Type
Condition Types IMG • SD • Basic Functions • Pricing • Pricing Control • Define Condition Type
Assign Account
Pricing Procedure IMG • SD • Basic Functions • Pricing • Pricing Control • Define and Assign Pricing Procedure
Sales and Distribution Pricing
Application Area = V: Sales and Distribution
Assign Account
Chart of Accounts
Account Determination
Sales Organization
Additional Fields
Account Key
Debit and Credit General Ledger Account
KOFI: Account Determination KOFK: Account Determination with CO
Can be used to add Customer Group, Material Group, Distribution Channel, etc.
Identifies different business scenarios, e.g., ERL: Revenue, and ERL: Sales Deductions

Figure 5.18 Pricing Determination

5.4.2 Perform Document Summarization for Sales and Distribution

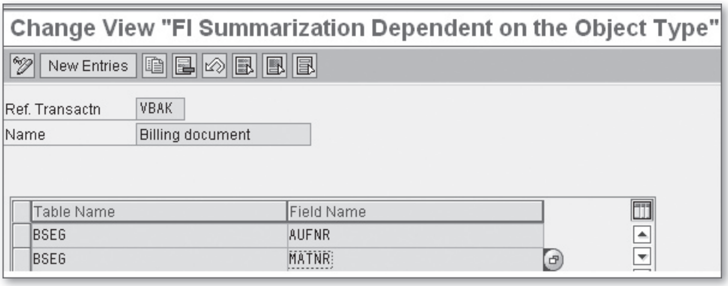
In this setting, you define the fields that you explicitly do not want to see in Financial Accounting. This setting allows you to configure how summary entries are posted for billing documents, orders, and invoice entries.

Menu Path and Transaction Code

Menu path: IMG • FINANCIAL ACCOUNTING (NEW) • GENERAL LEDGER ACCOUNTING (NEW) • PERIODIC PROCESSING • INTEGRATION • SALES AND DISTRIBUTION • PERFORM DOCUMENT SUMMARIZATION FOR SALES AND DISTRIBUTION

Transaction code: SAPL0F19

Figure 5.19 shows the screen where you maintain the material number (MATNR) and order (AUFNR) as the summarization for the billing document that comes from Sales and Distribution.



Ref. Transactn VBAK
Name Billing document

Table Name	Field Name
BSEG	AUFNR
BSEG	MATNR

Figure 5.19 Document Summarization for Sales and Distribution

5.5 SAP General Ledger Customization Settings for Procure-to-Pay

Recall Figure 5.15, which also contains the screen where you can customize the integration of Materials Management with SAP General Ledger using the following menu path: IMG • Financial Accounting (New) • General Ledger Accounting (New) • Periodic Processing • Integration • Materials Management.

In this section, you will learn how to:

- Define accounts for Materials Management
- Perform document summarization for Materials Management

5.5.1 Define Accounts for Materials Management

When you post invoices and other transactions (such as material movements) in the system, various accounts are updated in Financial Accounting. The system automatically determines which amounts have to be posted, and to which accounts. Account assignment is based partly on your entries and is partly determined from the master data settings already maintained.

For example, when you enter an invoice, you enter the amount to be posted to the vendor account. The material master record then provides the following information:

- To which valuation class does the material belong?
- Which type of price control is required for the material?
- Which account must be posted to for the material?
- Is the stock available smaller than the quantity invoiced?

Posted documents provide the following information:

- What is the purchase order price?
- Has a goods receipt been posted for the purchase order?

The system identifies the SAP General Ledger accounts to which amounts must be posted. In this section, you will learn how this is done.

Figure 5.20 shows the system parameters that are needed to define accounts for Materials Management integration with SAP General Ledger. First, you must enter the chart of accounts, and then select the transaction key that identifies the transaction group. You can then maintain the accounts by valuation area, general modifier, and valuation class. A combination of these attributes defines how a particular movement type would post to SAP General Ledger.

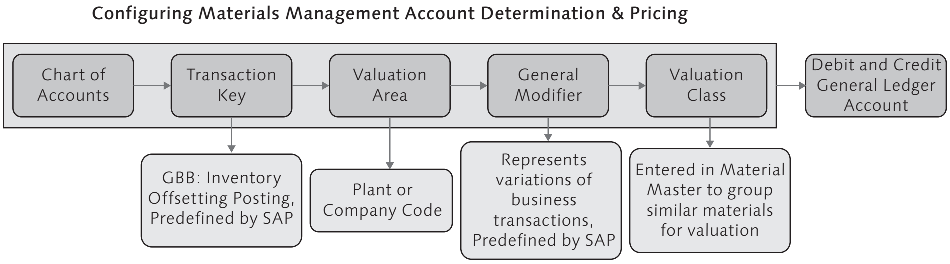

Configuring Materials Management Account Determination & Pricing
Chart of Accounts
Transaction Key
Valuation Area
General Modifier
Valuation Class
Debit and Credit General Ledger Account
GBB: Inventory Offsetting Posting, Predefined by SAP
Plant or Company Code
Represents variations of business transactions, Predefined by SAP
Entered in Material Master to group similar materials for valuation

Figure 5.20 Configuring Materials Management Account Determination

Menu Path and Transaction Code

Menu path: IMG • Financial Accounting (New) • General Ledger Accounting (New) • Periodic Processing • Integration • Materials Management • Define Accounts for Materials Management

Transaction code: OBYC/OMWB

You can assign general ledger accounts for Materials Management using Transaction codes OBYC or OMWB. If you use OMWB, then you will see the screen shown in Figure 5.21.

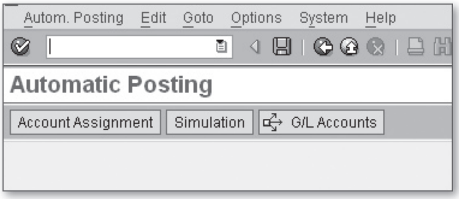
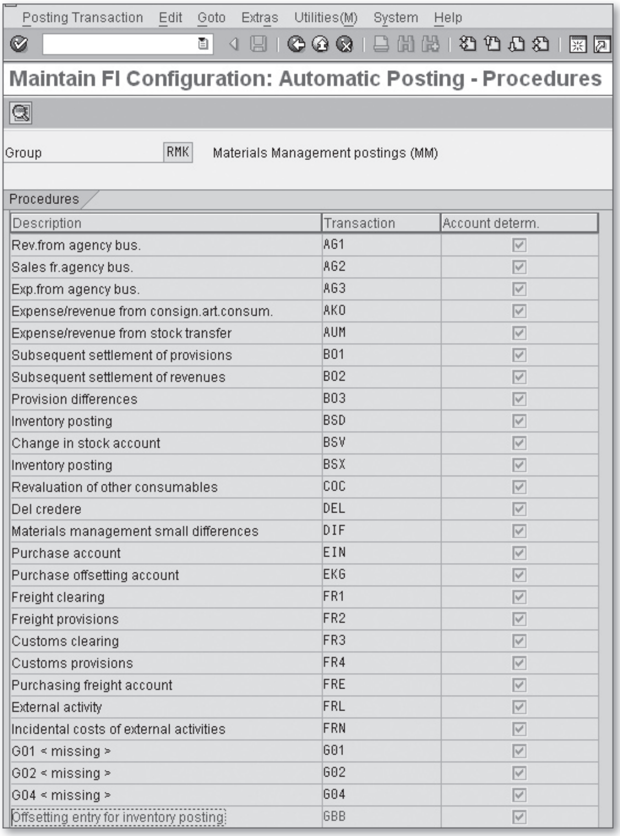

Autom. Posting
Edit
Goto
Options
System
Help
Automatic Posting
Account Assignment
Simulation
G/L Accounts

Figure 5.21 Automatic Posting (Transaction OMWB)

Transaction OMWB allows simulation functionality and, where used, a list of general ledger accounts. Transaction OBYC is merely the Account Assignment button in the Transaction OMWB screen. If you double-click on the Account Assignment button, you see Automatic Posting – Procedures screen shown in Figure 5.22. Here you see the different business processes that can be configured in the system.



Maintain FI Configuration: Automatic Posting - Procedures

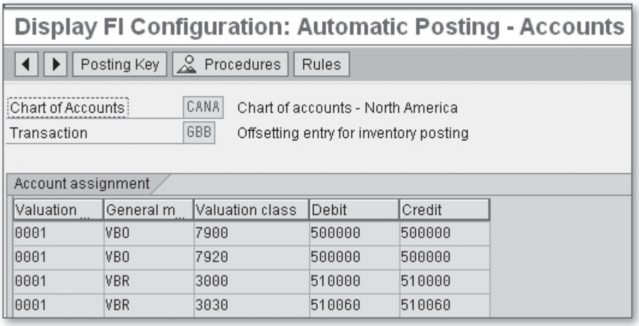
Group RMK Materials Management postings (MM)

Procedures

Description	Transaction	Account determ.
Rev.from agency bus.	AG1	☑
Sales fr.agency bus.	AG2	☑
Exp.from agency bus.	AG3	☑
Expense/revenue from consign.art.consum.	AKO	☑
Expense/revenue from stock transfer	AUM	☑
Subsequent settlement of provisions	B01	☑
Subsequent settlement of revenues	B02	☑
Provision differences	B03	☑
Inventory posting	BSD	☑
Change in stock account	BSV	☑
Inventory posting	BSX	☑
Revaluation of other consumables	COC	☑
Del credere	DEL	☑
Materials management small differences	DIF	☑
Purchase account	EIN	☑
Purchase offsetting account	EKG	☑
Freight clearing	FR1	☑
Freight provisions	FR2	☑
Customs clearing	FR3	☑
Customs provisions	FR4	☑
Purchasing freight account	FRE	☑
External activity	FRL	☑
Incidental costs of external activities	FRN	☑
G01 < missing >	G01	☑
G02 < missing >	G02	☑
G04 < missing >	G04	☑
Offsetting entry for inventory posting	GBB	☑

Figure 5.22 Materials Management Postings

The highlighted transaction key is Transaction GBB, which you can use to capture the offsetting entry for an inventory posting. If you double-click on GBB and enter the chart of accounts as "CANA," you see the screen shown in Figure 5.23.



Display FI Configuration: Automatic Posting - Accounts

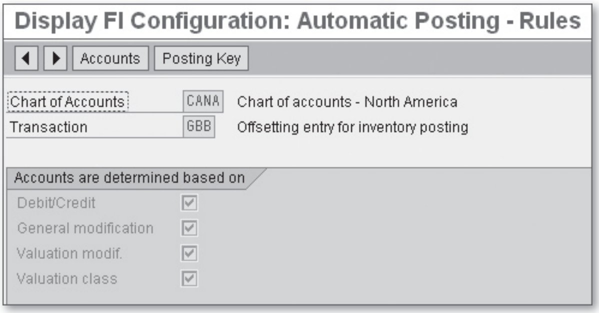
Chart of Accounts CANA Chart of accounts - North America
Transaction GBB Offsetting entry for inventory posting

Account assignment

Valuation ...	General m...	Valuation class	Debit	Credit
0001	VBO	7900	500000	500000
0001	VBO	7920	500000	500000
0001	VBR	3000	510000	510000
0001	VBR	3030	510060	510060

Figure 5.23 Account Assignment for Transaction GBB

You can view the parameters that describe how the accounts are determined by clicking on the Rules button in Figure 5.23. This is shown in Figure 5.24.



Display FI Configuration: Automatic Posting - Rules

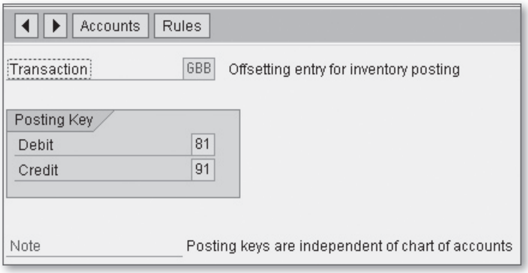
Chart of Accounts CANA Chart of accounts - North America
Transaction GBB Offsetting entry for inventory posting

Accounts are determined based on
Debit/Credit ☑
General modification ☑
Valuation modif. ☑
Valuation class ☑

Figure 5.24 Rules for Account Assignment

If you unselect any of the parameters in Figure 5.24, they will not be used for account determination. For example, if you unselect Debit/Credit, then the same account will be used for both debits and credits. This will reduce your maintenance activities pertaining to account determination.

If you click on Posting Key in Figure 5.24 you see the screen shown in Figure 5.25. Here you can maintain the posting keys for debit and credit accounts. For Transaction GBB, the Posting Key tab shows the Debit key as 81 and the Credit key as 91, which means that all material movements are posted to SAP ERP Financials using these posting keys.



Transaction GBB Offsetting entry for inventory posting

Posting Key
Debit 81
Credit 91

Note Posting keys are independent of chart of accounts

Figure 5.25 Posting Keys for Account Determination

5.5.2 Perform Document Summarization for Materials Management

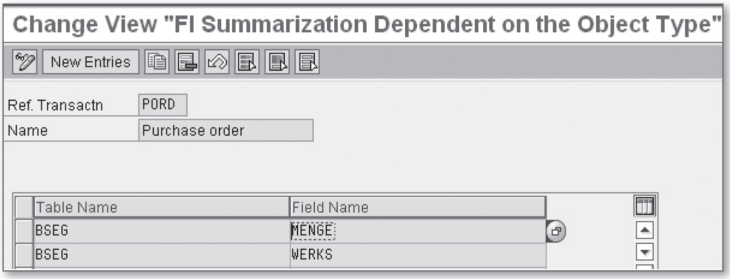
In this setting, you define the fields from Materials Management that you explicitly do not want to see in Financial Accounting. This setting allows you to configure how summary entries are posted for invoices, purchase orders, or invoice receipts.

Menu Path and Program Code

Menu path: IMG • FINANCIAL ACCOUNTING (NEW) • GENERAL LEDGER ACCOUNTING (NEW) • PERIODIC PROCESSING • INTEGRATION • MATERIALS MANAGEMENT • PERFORM DOCUMENT SUMMARIZATION FOR MATERIALS MANAGEMENT

Program code: SAPL0F19

Figure 5.26 shows the screen where you maintain the material quantity (MENGE) and plant (WERKS) as the summarization for the purchase order, which comes from Materials Management.



Ref. Transactn: PORD
Name: Purchase order

Table Name	Field Name
BSEG	MENGE
BSEG	WERKS

Figure 5.26 Document Summarization for Materials Management

5.6 Summary

This chapter offered an introduction to how SAP General Ledger is integrated with other components, focusing on the *order-to-cash* (sale from stock) and *procure-to-pay* (consumables purchasing) business scenarios. You learned about the common business process flows of each, which allowed you to understand the SAP General Ledger accounting entries that are made at various stages of the processes.

In the next chapter, we discuss how business processes and Logistics execution affect SAP General Ledger.

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