





## Reading Sample

*This chapter explores AR business processes such as sales orders, direct invoices, credit memos, and more. It discusses how these processes are integrated with the Sales and Distribution module through the order-to-cash business process.*

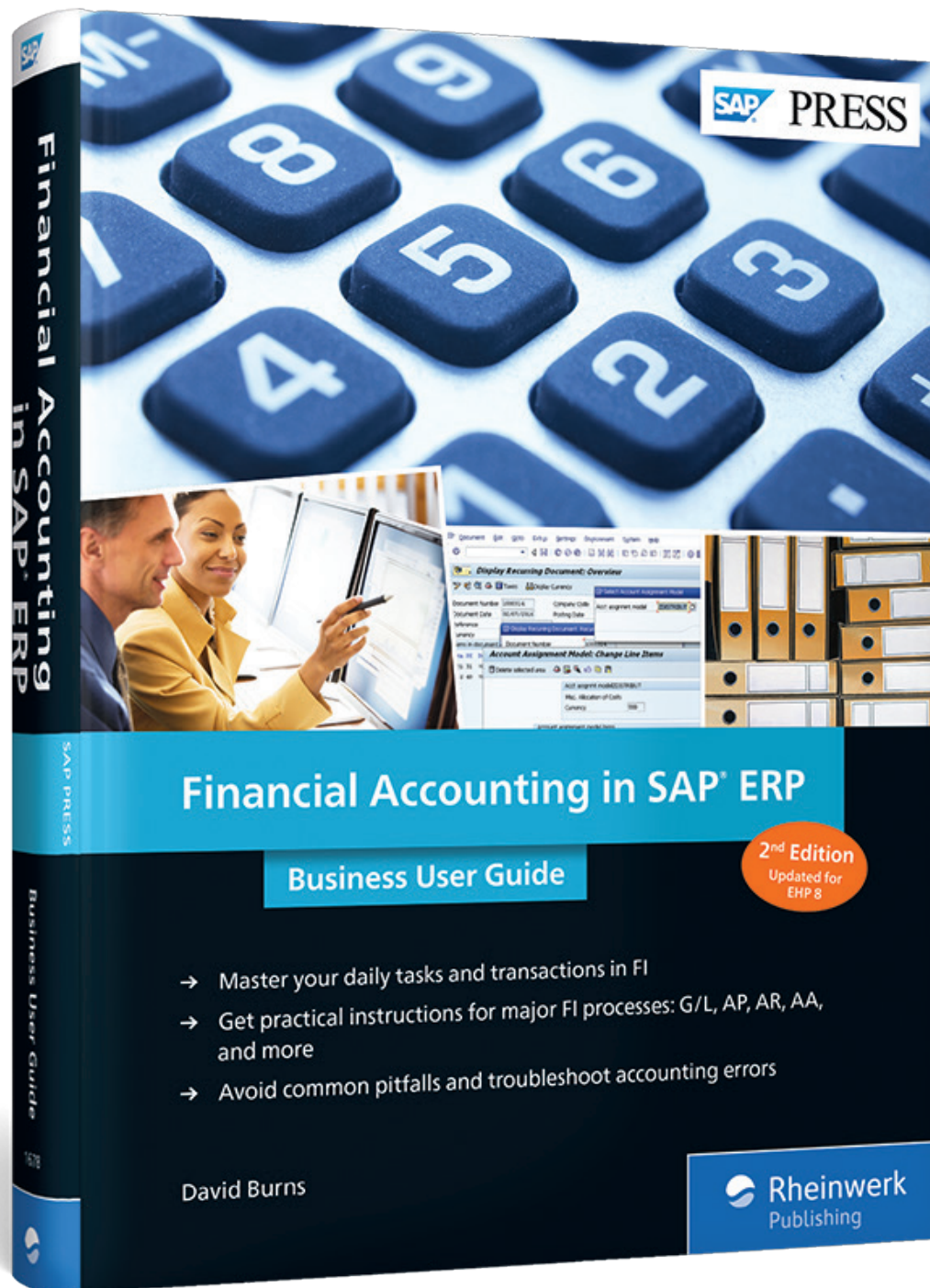
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-  **The Authors**

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### Financial Accounting in SAP ERP: Business User Guide

628 Pages, 2018, \$79.95  
ISBN 978-1-4932-1678-9

 [www.sap-press.com/4593](http://www.sap-press.com/4593)



## Chapter 9

# Accounts Receivable Processes

*In this chapter, we discuss Accounts Receivable (AR) business processes and integration with the Sales and Distribution (SD) module through the order-to-cash business process.*

The purpose of the Accounts Receivable (AR) module is to manage customer accounts and incoming payments. From a financial perspective, this is a critical part of the business—some would argue the most important part—because without customers and revenue, there is no business.

In many ways, this argument holds true. The sustainability of a company depends on a solid business model and revenue generation. This doesn't mean that you should ignore other aspects of business operations. However, revenue is necessary to build and sustain a business and is fundamental to profitability.

The AR module includes several business processes, such as customer invoices, incoming payments, credit management, and dunning. These business functions are all important, but they aren't the focus of this chapter. For more details on AR sub-processes, see Chapter 10. The objective of this chapter is to focus on the order-to-cash business process, which consists of the following steps:

1. Create a sales order (SO).
2. Create an outbound delivery.
3. Bill the customer.
4. Manage receivables.
5. Receive payment.

As we explore the order-to-cash process in detail, we cover two distinct business functions:

### ■ Sales

Sales involves customer interaction that ultimately results in a commitment from customers via a purchase order (PO) to buy goods or services from your company. When the PO is received by your company, a SO is created in your SAP system using the Sales and Distribution (SD) module.

### ■ AR management

AR management is the operational management of customer accounts and outstanding receivables. This accounting function involves maintaining customer accounts, monitoring credit, collections management, customer service, and reporting.

Together, sales and AR management influence revenue forecasts, profitability, cash flow, human capital management, and budgeting.

Now that you understand the basics, let's begin to discuss the order-to-cash process in detail. SAP business processes often consist of steps that are cross-modular, and the order-to-cash process is a great example of the integration between finance and logistics. This process is the focus of this chapter, specifically in demonstrating the integration between the SD module and AR.

There are many transactions in SD, and we won't attempt to discuss them all in detail in this chapter. Instead, the intention is to provide you with enough knowledge to understand the basic integration of AR and SD.

It's important for accountants and financial managers to understand the dependencies AR has with SD; this knowledge will serve you well in better performing certain functions, such as financial close.

We'll start by considering the frontend of the order-to-cash process before moving on to direct invoices, account maintenance, and exceptions.

## 9.1 Logistics

The order-to-cash process begins in SD, which is a component of Logistics. Logistics functionality in SAP covers a broad spectrum of capabilities and SAP modules. Some of the modules in Logistics include SD, Material Management (MM), Production, Plant Maintenance (PM), and Quality Management (QM), as listed in Figure 9.1.

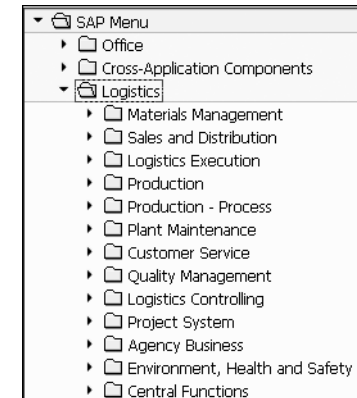


Figure 9.1 Logistics Application Menu

Within the SD module, there are also numerous capabilities. As you can see in Figure 9.2, the capabilities that exist in SD include **Sales Support, Sales, Shipping and Transportation, Billing, and more.**

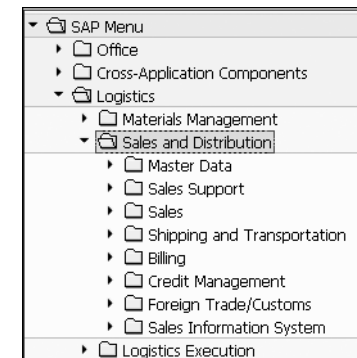


Figure 9.2 Sales and Distribution Application Menu Path

In this chapter, our discussions are limited to those portions of SD relevant to the sale, delivery, and billing of goods or services—specifically, transactions in SD-Sales and SD-Billing.

Sometimes, as finance and accounting professionals, we have a tendency to think that revenue just shows up at our doorstep, and all we have to do is tend to the accounting and customer service aspects of it. In reality, much occurs at the frontend of the order-to-cash process. For example, there are many aspects to the customer

relationship side of revenue management. Some challenges include incorrect shipments of goods, shipping damaging goods, returns, and collection disputes. The point is that AR management is a dynamic function, and understanding the moving parts is key to knowing how to manage AR overall. Furthermore, to effectively manage sales accounting, you need a complete understanding of the order-to-cash process and the integration between SD and AR.

Let's start at the beginning. A customer sale is the starting point of the order-to-cash business process and takes the form of the sales order (SO) mentioned previously. SOs are handled in the portion of Logistics referred to as SD-Sales, which is where transactions exist for sales inquiries, quotations, scheduling agreements, contracts, and more. SD-Sales is also where outbound deliveries are created. The application menu path **Logistics • Sales and Distribution • Sales** for SD-Sales is shown in Figure 9.3.

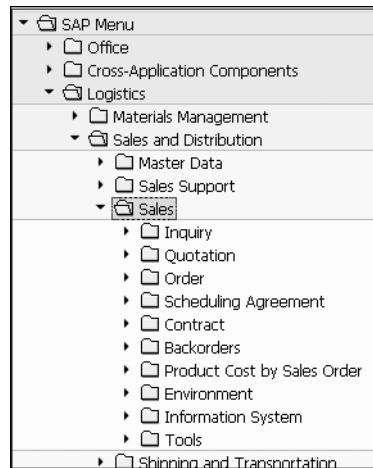


Figure 9.3 SD-Sales Application Menu Path

#### Note

The setup and configuration of SD is more complex than AR. It requires special expertise in areas such as pricing. Therefore, your company should ensure it has specialized SD expertise in house.

In the following sections, we'll discuss steps in the order-to-cash process, starting with the creation of an SO.

### 9.1.1 Sales Orders

According to SAP, an SO is a request from a customer to a company to deliver a defined quantity of products or provide a service at a certain time. The SO is typically considered a contractual agreement between a buyer and seller to deliver goods or services of a particular price and quantity by a set date.

There is a lot of complexity behind the creation of a SO, which is beyond the scope of this book. Keep in mind that companies have entire customer service departments whose job is to create SOs all day. This process involves taking customer orders over the phone or electronically, manually entering SOs, and handling customer inquiries. The point is that creating SOs is a specialized function that requires knowledge of customers, products, pricing, and the sales organization.

The job of finance and accounting is to have a basic understanding of the sales process and to know when and how it affects accounting. Furthermore, it's important to communicate with sales and customer service on questions of revenue recognition, status of orders, and billing.

The intent of this book isn't to teach you how to create SOs or other Logistics transactions. To obtain an understanding of the integration between SD and AR in the order-to-cash process, displaying Logistics documents will suffice. For purposes of our discussion, you should know that SOs contain pricing information, materials and quantities, shipping methods, and much more.

The transactions used for SOs are as follows:

- Transaction VA01 Create Sales Order
- Transaction VA02 Change Sales Order
- Transaction VA03 Display Sales Order

Figure 9.4 shows an example SO displayed using Transaction VA03. An SO contains a header and several tabs, and the bottom section shows all SO line items and line item tabs. To an accountant, the complexity of SOs can seem overwhelming. What's most important for you is to understand the key pieces of information that impact the financials. Note that the SO itself doesn't update accounting until subsequent steps are performed; the primary impact to accounting occurs when an SD billing document is created. This billing function also produces an open receivable in the customer's account in AR.



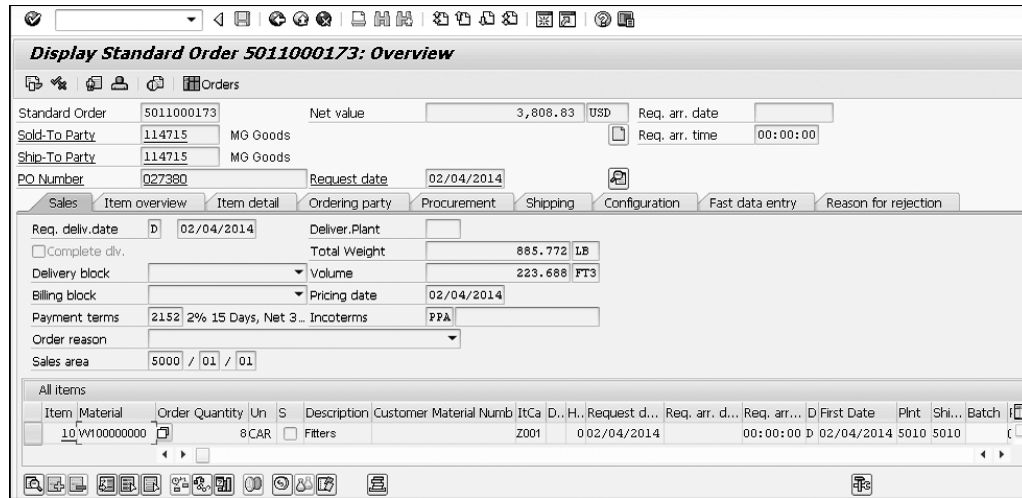


Figure 9.4 Display Sales Order

### 9.1.2 Outbound Deliveries

After an SO has been created, the next step is to deliver the goods or services. This is referred to as a *goods issue* and results in an inventory posting in accounting.

A user creates an outbound delivery using Transaction VLO1N, referencing the SO. When an outbound delivery is created, the SO will display an outbound delivery document number in **Document Flow** (Figure 9.5).

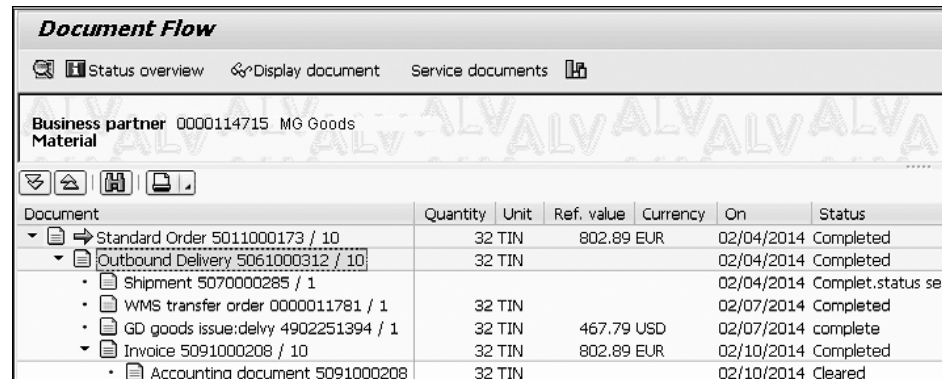


Figure 9.5 Outbound Delivery in Document Flow

Click on the outbound delivery document number and then the **Display document** button to enter the outbound delivery document (Figure 9.6). Note that the outbound delivery document number highlighted in Figure 9.5 is the same as the outbound delivery document number shown in the header of Figure 9.6.

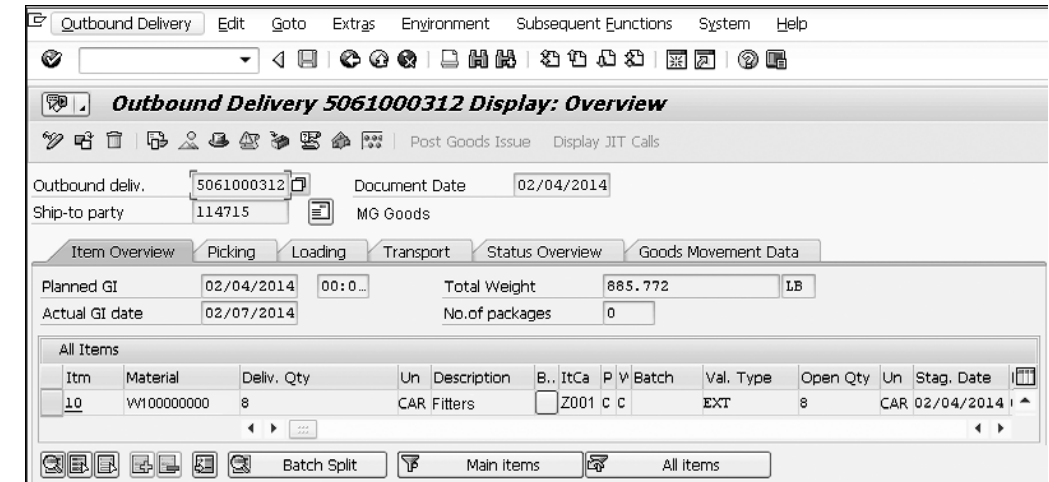


Figure 9.6 Display Outbound Delivery Document

In Figure 9.6, tabs exist for several logistical functions relevant to the selection of goods, shipping, and transport: **Picking, Loading, and Transport**. One other tab of particular importance to Financial Accounting (FI) is **Goods Movement Data**. Movement of goods reduces inventory and produces a financial document. This is one of the key integration points between SD and FI.

### 9.1.3 Billing Documents

Following outbound delivery, the next step is the creation of a customer billing document. In accounting, the term *bill* is synonymous with *invoice*. An SD billing document is created in either SD-Sales or SD-Billing using Transaction VFO1. When a customer bill is created in SD, it always references an SO. See the example billing document in Figure 9.7.

An SD billing document has a unique feature: Once created, it doesn't automatically transfer information to accounting. To transfer information, use Transaction VFO2, and choose **Billing document • ReleaseToAccounting**. Once released, **ReleaseToAccounting** will be grayed out, indicating this step has already been completed.

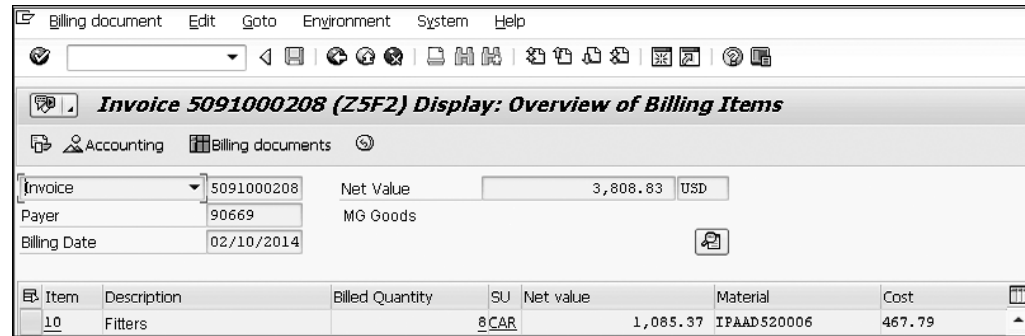


Figure 9.7 Display Billing Document Screen

After outbound delivery items have been released to accounting, click the **Accounting** button in Transaction VFO2 or Transaction VFO3 to view the AR invoice.

### 9.1.4 Automatic Creation of Accounting Invoice

When a billing document has been posted, as shown in Section 9.1.3, a corresponding AR invoice is automatically created after the bill has been released to accounting. At the end of the bill creation process, the billing document created using Transaction VFO1 creates two documents: an SD invoice (i.e., a bill) and an AR invoice. Things become a little tricky here. Both documents can have the same document number and typically do for many SAP customers. Let's take a look using the example shown earlier in Figure 9.7.

Within **Document Flow** in Transaction VFO3, you can see both the SD invoice number (i.e., billing document) and the accounting document invoice number (Figure 9.8).



Figure 9.8 Transaction VF03 Display Document Flow

View the invoice document in AR by clicking the accounting document number and then the **Display document** button. You'll see the open receivable created in AR and awaiting payment receipt (Figure 9.9).

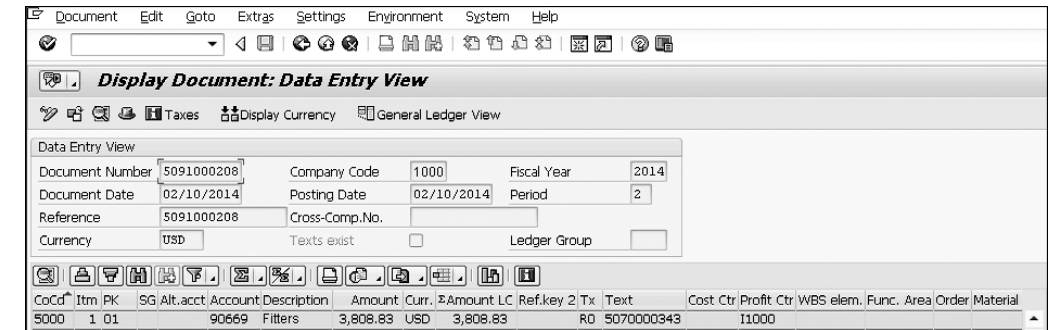


Figure 9.9 Display Accounts Receivable Invoice Document

Now that you've learned about the frontend of the order-to-cash business process, let's discuss the creation of a direct invoice in the AR module next. It's important to understand that accounting integration from SD to AR is a one-way street, meaning that updates to accounting documents can flow from SD to AR but not from AR to SD.

## 9.2 Direct Invoices

*Direct invoices* is often used to refer to AR invoices created using Transaction FB70. These are AR invoices created directly in the AR module, independent of SD-Sales and the creation of billing documents.

There are a few distinguishing features of direct invoices. First, they have no corresponding SD billing document. SD billing documents are only created using Transaction VFO1, either in SD-Sales or SD-Billing. Another difference is that the standard document type for direct AR invoices is DR, whereas those from SD are document type RV. Using Transaction FBL5N, you can therefore distinguish direct invoices from those transferred from SD. The document number ranges are also different because number ranges are assigned to document types.

When do you use direct invoices? There are several different scenarios that are applicable, as follows:

### ■ Outside sales ordering system

It would be nice to think that every company takes advantage of the full integration that SAP has to offer, but this isn't always the case. Sometimes, a company will use a sales ordering system outside of SAP. It could be that this system was already in place when SAP was implemented, and the decision was made to keep it. In a situation like this, management may have decided to keep the sales ordering system because the sales force and customer service representatives were already trained on it. The cost of transitioning to SD may have been another deciding factor.

Whatever the reason, if a non-SAP system is used for SO management, then accounting data for receivables may simply be interfaced to the AR module. In this situation, some direct invoicing in SAP may be required.

### ■ No SO exists

It's a best practice to create an SO for any sale. However, sometimes one size does not fit all. For various reasons, a company may decide not to create SOs for all sales. There are several factors that come into play, including lines of business, size of the company, and industry. Moreover, for small or one-time purchases, a company may decide that creating an SO is neither necessary nor worth the effort. In such situations, a company may decide to create invoices directly in AR instead.

### ■ Miscellaneous receivables

Business models have become very creative over the years. Although the majority of businesses generate revenue by providing goods, there are a lot of service-based business models that don't require shipping and inventory movement. A collection agency is a good example. Other examples include the collection of a service fee, fines, tax, or subscription fees. For some business models, it makes more sense to create direct invoices and fully manage receivables in the AR module.

For more information on direct AR invoices, see Chapter 10, Section 10.1.1.

Now that you've learned about AR invoices, let's discuss customer account maintenance and payment receipt.

## 9.3 Customer Account Maintenance and Incoming Payments

Within an accounting department, there is typically a group responsible for customer account maintenance. One metric the AR department is responsible for is the days sales outstanding (DSO). DSO is a measure of the average number of days it takes a company to collect revenue after a sale has been made. DSO is a key performance indicator (KPI) that is monitored at the C-Suite of a company.

Keeping DSO at acceptable levels involves several moving parts, such as monitoring customer accounts through account statements, dunning, credit management, and more. Processes need to be in place for collecting on overdue accounts, establishing customer credit ratings, and setting payment terms.

Regarding terms of payment, it's important to establish favorable payment terms with customers. Usually there are standards such as *net 30*. However, important customers often demand payment terms that are more favorable to them and their cash flow. Balancing this aspect of the business can be tricky. Many companies offer payment terms with discounts that reward early payment. This all plays into cash management and liquidity forecasting. The quicker you receive payment from your customers, the better the health of the business.

In addition, the form of payment and your ability to process payments quickly make a big difference. Most companies have lockboxes to centrally process incoming check payments quickly. In addition, receiving payment electronically (e.g., direct deposit) reduces processing costs and makes the funds available quicker.

There are a couple ways to post incoming payments electronically in SAP. The first is a *lockbox*, that is, a post office box accessible by your bank. Your customers send their payments to the post office box, and then the bank collects and processes these payments directly and deposits them into your bank account. You can obtain an electronic file from your bank to process lockbox transactions in SAP. A more detailed look at the lockbox is beyond the scope of this book, but it's an important concept to understand.

Your company can also receive an electronic bank statement (EBS) from your bank and automatically clear customer invoices in SAP. For further details on EBS, see Chapter 15. This method is useful on accounting for electronic payments (e.g., ACH, wire transfers).

Finally, you can create incoming payments manually in AR. Whether an AR invoice is created as a follow-on document from SD or created as a direct invoice using Transaction FB70, the next step in the order-to-cash process is to receive payment from the customer.

Incoming payments are created in AR using Transaction F-28. This transaction is covered in detail in Chapter 10, Section 10.6. When an incoming payment is posted, a clearing document is created, and the status of the AR invoice changes from **Open** to **Cleared**.

## 9.4 Process Exceptions

Throughout the order-to-cash business process, exceptions happen. Goods sent to your customers may arrive damaged and need to be returned. Invoices may contain an incorrect amount or quantity. Documents may be posted with incorrect information. Although we won't attempt to identify all the possible exceptions that can occur, we'll discuss three transactions in the AR module that are frequently used to correct errors and make adjustments: credit memos, document reversals, and changing documents.

### 9.4.1 Credit Memos

A *credit memo* is exactly what it appears to be: a credit back to a customer's account. A credit memo may be created because of a defective good, overcharge, or other adjustment needed to a customer's account. Credit memos net against open receivable amounts at the time of payment receipt to properly net the balance in the customer account.

There are two ways to create credit memos. The first is in the AR module using Transaction FB75. This is covered in detail in Chapter 10, Section 10.2. Transaction FB75 should be used for general customer account credit adjustments not specific to sales transactions originating in SD. When you need to issue a credit memo for a transaction originating in SD, the best approach is to create it using Transaction VF01.

Figure 9.10 shows the Transaction VF01 **Billing Type** dropdown box, with the **Credit Memo** option highlighted.

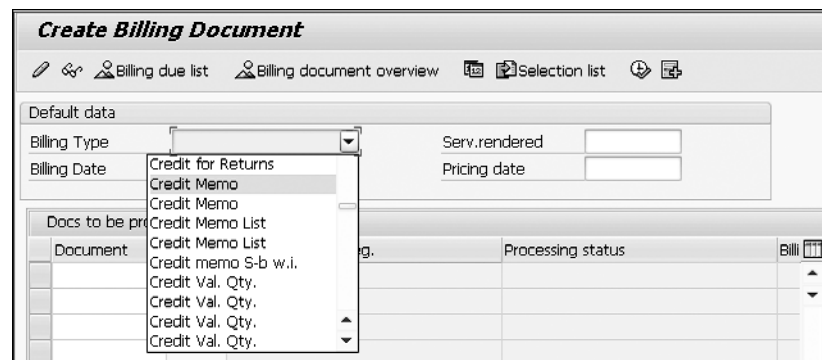


Figure 9.10 Transaction VF01 Billing Type Dropdown List

After you create a credit memo, the SO referenced in the credit memo displays the credit memo document number in **Document Flow**. A credit memo originating in SD also transfers to FI so that the customer account reflects the credit. These credit memos can be seen in AR using Transaction FBL5N.

As noted earlier, credit memos can be created both in AR and SD. Remember, SD and AR integration is a one-way street: financial information flows from SD to AR, but not vice versa. Therefore, if the credit memo needs to tie back to an SO, create the credit memo in SD, not in AR.

Next, let's discuss document reversals.

### 9.4.2 Document Reversals

An SAP best practice is to reverse documents in the module in which they originate. This concept is important for keeping modules in sync.

In Chapter 10, Section 10.4, we discuss resetting and reversing AR documents in detail. However, for documents originating in SD, document reversals should be made in that module rather than reversing follow-on documents in AR.

In this chapter, we discuss several SD transactions. The first, Transaction VA01, creates a SO. To cancel an SO, use Transaction VA02. To delete an SO using Transaction VA02, choose the **Delete** option from the **Sales document** dropdown menu (Figure 9.11). You can only do so if no subsequent documents have been created.

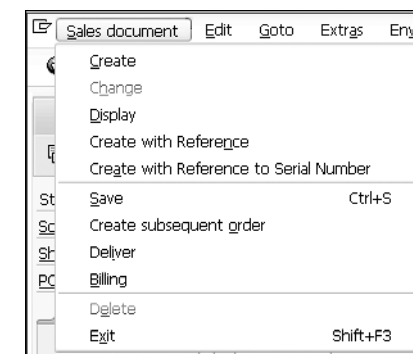


Figure 9.11 Transaction VA02 Dropdown Selection Menu

Keep in mind that SOs can be large documents with numerous line items. Just because there is an error or issue in one line of the SO doesn't mean that you must



cancel the entire SO. SO line items can be changed, deleted, and inserted, so before canceling an entire SO due to a line item issue, make sure you attempt to fix the document first. If a customer truly cancels an order, then the delete option is applicable.

The next SD transaction discussed is an outbound delivery that is created using Transaction VLO1N in SD-Sales. Changes to the outbound delivery document cancel or modify all subsequent documents, ensuring that the outbound delivery document shows the current status of the entire outbound delivery. To reverse or cancel the goods movement portion of an outbound delivery, use Transaction VLO9.

The third SD transaction discussed in this chapter is the billing document. To cancel the billing document, use Transaction VF11. In this way, the AR invoice is also reversed, and the current status is correctly updated for the SO. Remember, reversing a document in the module of origin also triggers a reversal in FI. You can validate this in an AR customer accounting using Transaction FBL5N.

### 9.4.3 Change Posted Documents

As noted previously, SAP best practice is to change posted documents in the module in which they originated. However, there is an exception to this rule with the AR invoice, which we'll discuss toward the end of this section. See Chapter 10, Section 10.5, for more on changing AR documents.

Transaction VA01 is used for the creation of an SO. SOs can be canceled, and SO line items can be deleted or added. The transaction to change an SO is Transaction VA02. Any change to an SO should be made by the office responsible for entering and managing SOs in the system.

#### Note

An accountant or accounting supervisor may request that a change to an SO be made but should not make the change directly unless it's part of his job responsibilities and he has been trained. Before making any change, it's important to understand the dependency on subsequent documents and the impact any change will have to the statuses of an SO.

Another important SD transaction is outbound delivery. To make a subsequent adjustment to an outbound delivery, you can use Transaction VLO2N. Keep in mind that outbound deliveries involve several other steps related to transportation and

shipping. Other steps or transactions may be needed to perform the changes you require.

The last transaction discussed is the billing document, which is created using Transaction VFO1. To change the billing document, use Transaction VFO2. In this transaction, you release billing information to accounting. Certain accounting information can't be changed in SD after this release has taken place. In the case of an AR invoice, you need to make any change directly in the AR invoice that was created as a follow-on document when the release to FI took place. The FI transaction to change the AR invoice is Transaction FBO2.

One of the more commonly changed fields in an AR invoice is the **Baseline Date**. You may also need to change the payment terms or the payment method assigned in the document. These are simple changes that cause no reconciliation problems between AR and SD.

Throughout this chapter, we've mentioned numerous times that SD to AR is a one-way street as far as integration and the exchange of financial information. It's important to keep the integrated documents in sync as much as possible. Moreover, keeping all documents centrally tied to the SO makes life a lot easier. However, we must stress the different business functions between SD and AR because these differences are relevant to changing customer invoices directly in AR.

In the order-to-cash business process, the frontend steps are executed in SD. When a customer bill is created and transferred to accounting, a customer invoice is created in AR. From this point on, customer account maintenance and collections are the responsibility of accounting.

There are times when it's necessary for an AR clerk to change an invoice in AR (i.e., document type RV) that was created as a follow-on document from SD. Reviewing the typical responsibilities of an AR department is helpful in framing the reasons why such a change may be necessary. AR departments may be responsible for the following tasks:

- Keeping DSO at acceptable levels
- Monitoring customer accounts
- Dunning
- Managing credit
- Collecting on overdue accounts
- Establishing customer credit ratings

- Setting payment terms
- Processing incoming payments
- Blocking customer accounts

If the AR department needs to make a change to a posted document to fulfill these responsibilities, and the change can't be made in SD, then the department will make the changes necessary in the AR module.

## 9.5 Summary

In this chapter, we focused on AR business processes and integration with the SD module. The steps that make up the sale of goods and services aren't isolated to the AR module but rather reach back into transactions in the SD module. Sales functions originate in SD-Sales. The complete business process includes creating SOs, outbound deliveries, billing, and payment receipts. Together, these make up the order-to-cash process.

The significance of the order-to-cash process is that it begins with the receipt of a customer order via PO, and it ends with payment receipt from the customer. The process demonstrates integration between SD and FI, which is an essential link between Logistics and FI.

SD supports the business in taking customer orders, revenue recognition, goods movements, shipping and transportation, pricing, and more. It's important for any accountant, particularly AR clerks and supervisors, to have a base knowledge of SD and FI integration.

The first step in the sales process is a customer SO. After an order has been placed, the goods must be picked, packed, and shipped. These functions involve the creation of an outbound delivery document in SD, with several subsequent documents associated with it and displayed in **Document Flow**.

Following outbound delivery, the next step is the creation of a customer bill via Transaction VFO1 in either SD-Sales or SD-Billing. The result is the creation of an SD billing document. After a billing document is released to accounting, a partner invoice is created in AR. This invoice in AR is referred to as a subsequent or follow-on document and is displayed in **Document Flow**.

It's an SAP best practice to change or reverse a document in the module in which it was created. Both SOs and outbound deliveries can be changed in SD, with limitations based on the subsequent steps already performed.

Transactions in both SD and FI make the order-to-cash process complete. In this chapter, you learned about each step in the process, integration points, and when and how to reverse or change documents.

This concludes the discussion of AR processes and integration with SD. In the next chapter, we'll discuss AR transactions in detail.

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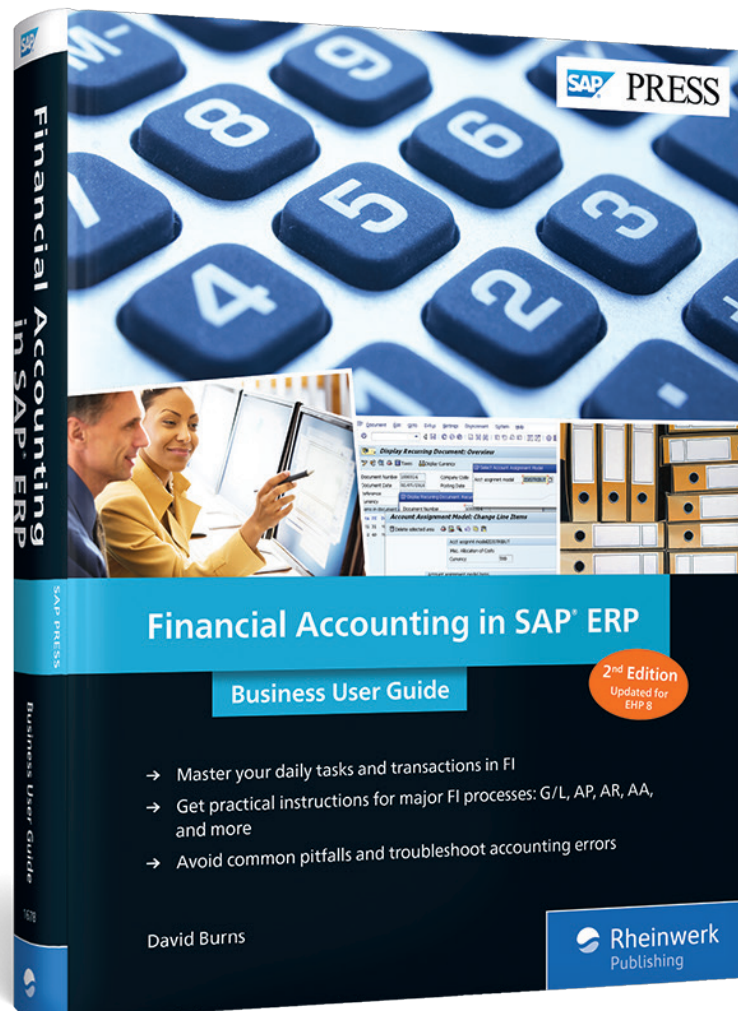
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David Burns

## Financial Accounting in SAP ERP: Business User Guide

628 Pages, 2018, \$79.95

ISBN 978-1-4932-1678-9

 [www.sap-press.com/4593](http://www.sap-press.com/4593)



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