Browse the Book

This chapter covers the C_TS410 exam topics in the area of financial accounting. You'll learn about master data and organizational data, key financial accounting processes from general ledger accounting to asset accounting, and integration scenarios with other business processes..
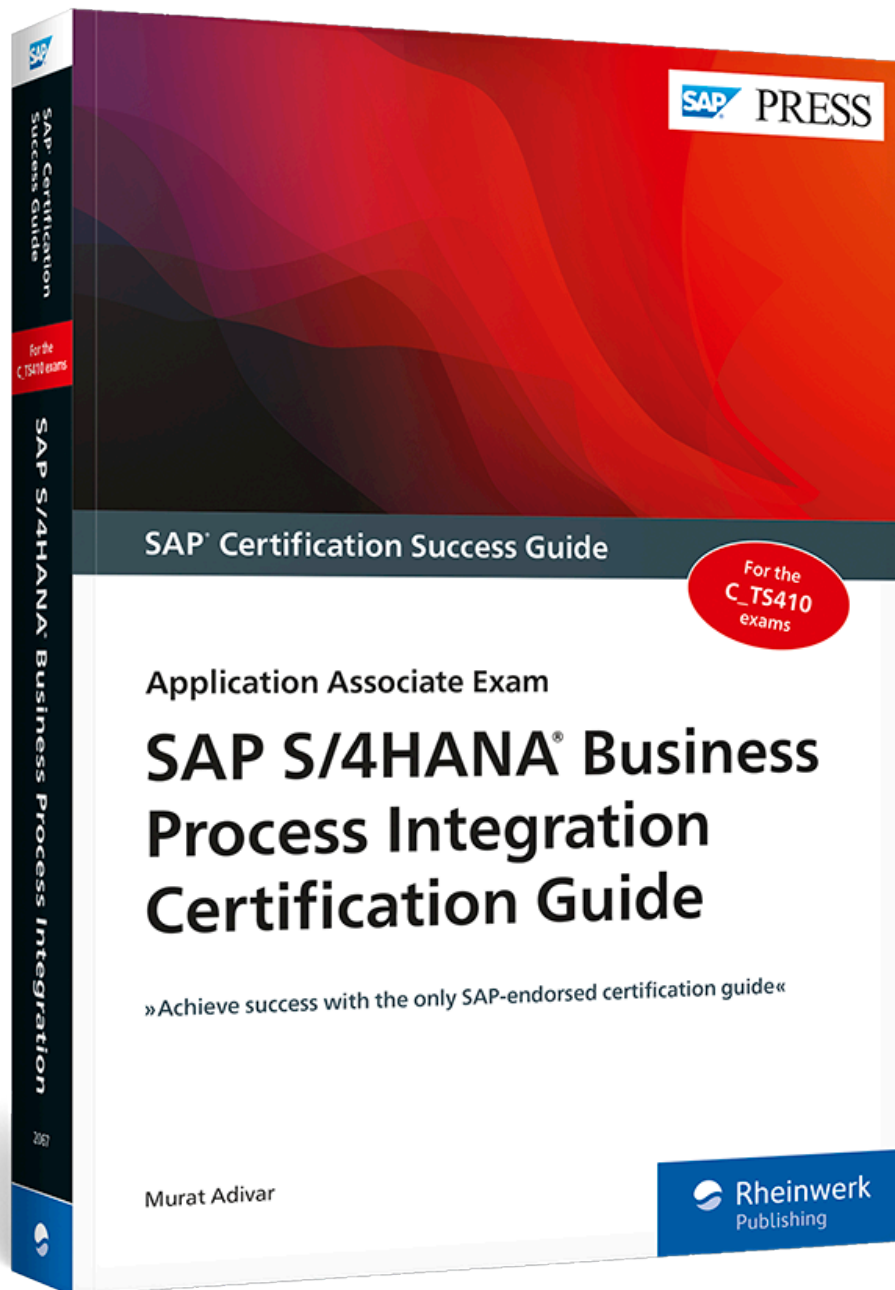
"Core Finance: Financial Accounting"

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The Author

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Chapter 2
Core Finance: Financial Accounting

Techniques You'll Master

- Describe the key processes in financial accounting and the scope of these key processes

- Explain the master and organizational data that support the transactions of financial accounting

- Understand and fulfill the requirements of financial transactions and perform transactions

- Identify the touchpoints of integration between the financial accounting module in SAP S/4HANA and other system modules

This chapter of the book covers all certification-relevant topics related to financial accounting with SAP S/4HANA. We'll describe the master data, organizational data, and system transactions that support financial accounting and also explain potential integration scenarios.

SAP S/4HANA provides financial accounting and controlling application components (modules) to support two specialized accounting branches: financial accounting and management accounting. Financial accounting is externally focused. The purpose of financial accounting is to enable legal reporting according to the country's legal requirements, track the financial impact of business processes, and provide financial reports for investors. Laws and regulations define the content of financial accounting. However, management accounting is internally focused, and its purpose is to manage the company concerning costs and revenues. The internal reports in management accounting are intended to monitor and improve business operations and optimize their costs and revenues. Management requirements define the content and principles of management accounting.

Some essential tasks in financial accounting include the following:

- Posting all financial transactions, revenues, and expenses
- Keeping past postings unchanged in the system for reporting purposes
- Recording monetary and value flows
- Inventory evaluation

Real-World Scenario

Financials is the backbone of any company. Financial accounting is responsible for tracking all business process-related financial impacts, providing summaries, and creating external reporting. Companies periodically issue financial reports and statements to inform their owners, stockholders, tax authorities, and lenders about the company's financial value and financial performance in compliance with legal requirements.

As an SAP consultant, you should clearly understand how business processes are connected to financial accounting in the real world and how you can map those connections into the system. In particular, you should be able to explain in simple terms how the system enables the administration and monitoring of business partner and asset financial records during business transactions and how those records are reconciled and summarized in general ledgers for financial reporting at any time. Finally, you must be able to simply describe how global companies can perform parallel accounting in SAP S/4HANA to meet various reporting standards.

2.1   Objectives of This Portion of the Test

This portion of the certification aims to test your knowledge of key financial accounting processes. In particular, the certification exam includes questions about the organizational data, master data, and standard transactions of financial accounting. SAP consultants are expected to understand financial accounting functions and all touchpoints of integration between the financial accounting module and other system modules.

For the certification exam, business process integration consultants must have a good understanding of the following topics:

- Master data and organizational data assignments in financial accounting
- Scope of financial accounting and its key processes
- Financial statements and external reporting
- Potential integration scenarios between financial accounting and other system modules

Note

The topic of financial accounting covers 8%–12% of the questions in the certification exam.

2.2   Data Structures for Financial Accounting

In this section, we explain certification-relevant topics of financial accounting. We'll introduce you to organizational data and master data in financial accounting and explain the relationships (and assignments) between organizational and master data. We also cover the key processes in financial accounting.

2.2.1   Organizational Data

In this section, we'll focus on organizational data in financial accounting. To map the organizational structure of your enterprise into the system, you'll need the following organizational data:

- Client
- Company code
- Segment
- Business area

Client

A *client* is the highest-level unit of all organizational elements in an SAP system. A client represents the enterprise or headquarters group in real business. In SAP S/4HANA, the organizational data, master data, and transactional data are maintained at the client level. The technical role of the client in SAP S/4HANA is to keep this data separate from other clients.

> **Tip**
>
> We usually use the words *client* and *customer* interchangeably in daily life. However, those words refer to different data in SAP terminology. The client in an SAP system defines the highest level of hierarchical organizational data. The transactions performed and data stored at the client level are valid and applicable to all company codes in the enterprise structure. However, a customer is master data in the sales and distribution module. Customer master data is maintained at different organizational levels, such as client, company code, and sales organization (see Chapter 5).

Company Code

A *company code* is organizational data representing an independent legal entity that enables the modeling of a business organization based on financial reporting requirements, such as balance sheets, income statements, and profit and loss (P&L) statements. This entity is the smallest SAP entity supporting a fully legal set of books. The company code is the highest organizational unit in external (legal) reporting and is usually created based on geographic considerations. Every business process relevant to financial accounting (e.g., sales, procurement, production, human resources [HR], maintenance) uses a company code as organizational data. An enterprise must have at least one company code. You can define multiple company codes in a client if you want to manage the financial accounting of several independent companies. In the system, you can use a four-character alphanumeric key to identify a company code.

Segment

A *segment* represents a division of a company for which you can create financial statements for legal reporting. A segment is organizational data that you can use as a dimension for reporting purposes in the system. Segment reporting is used to meet reporting requirements determined by several accounting principles such as International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP). In particular, GAAP defines a segment as a part of a company with its own financial data concerning profits and consumption.

Segment reporting can also help companies monitor economic performance, assess risks and opportunities, and effectively forecast a company's sales and

financial reserves. Based on your reporting needs, you can define two types of segments:

- Business segments
- Geographical segments

These segments can be used in document splitting (if active) as well as in financial statements. Segments are created at the client level. In Customizing, you can define a segment and assign multiple profit centers to that segment. Profit centers are highly integrated with other objects in the system (i.e., products, cost centers, assets, projects, and orders). In document splitting, the system derives the segments automatically from the profit centers. You do not need to set a segment manually.

Business Area

A *business area* is organizational data that represents a separate operational and responsibility area in the organization. You can use business areas in external segment reporting based on significant operation areas (e.g., product lines, branches) across company codes. You can define a business area if you would like to create financial statements (balance sheets and income statements) for internal areas, in addition to for company codes. In Customizing, you can create a business area and activate it for several company codes; as a result, you can activate several business areas for a single company code or activate a single business area for several company codes. Once you activate a business area for a company code, you can manually enter that business area in business transactions to post items in that business area.

Business areas can also be automatically derived from other account assignments, such as from cost centers and assets. You can assign cost centers and assets to business areas in their master records.

2.2.2   Master Data

In financial accounting, the following kinds of master data are used:

- **Master data in general ledger accounting**
  Includes general ledger accounts and profit center master records.
- **Master data in subledger accounting**
  Includes customer accounts, vendor accounts, asset accounts, and business partner master records.

In this section, you'll learn certification-relevant details about these types of master data.

Master Data in General Ledger Accounting

This section introduces the master data that serves as a foundation for transactions in general ledger accounting. Let's begin with a look at general ledger accounts.

General Ledger Accounts

In Section 2.3.1, you'll learn how to create and maintain general ledger accounts. For now, we'll only introduce some essential facts about general ledger accounts.

General ledger accounts are master records in general ledger accounting. General ledger accounts include the cumulative financial data required for generating financial statements. Three categories of general ledger accounts exist:

- **Balance sheet accounts**
  These accounts record postings from business transactions.
- **Profit and loss (P&L) or income statement accounts**
  These accounts record expenses or revenues from operating and nonoperating expenses.
- **Reconciliation accounts**
  These accounts connect subledger accounts (customer, vendor, asset, contract accounts receivable/accounts payable) to the general ledger. In the master record of a subledger account, you'll assign a reconciliation account. The reconciliation between subledgers and the general ledger is guaranteed because reconciliation accounts are closed for direct posting; they simply fetch the data from the assigned subledger accounts simultaneously when posted. Reconciliation accounts enable you to create income statements or balance sheets any time you want.

Profit Center Master Record

The profit center master record consists of profit centers and a standard hierarchy of profit centers. To define profit centers in the system, you must create a profit center hierarchy assigned to a controlling area and then assign the profit center to the hierarchy. A profit center can be assigned to a segment and a company code in its master record, as shown in Figure 2.1.

» **Note**
Profit centers were formerly part of profit center accounting in controlling. You can use profit centers both in financial accounting and controlling in parallel. However, if you use profit centers as a document splitting characteristic in the new general ledger, you must use profit centers only in the new general ledger accounting.

Figure 2.1 Profit Center Master Record

Master Data in Subledger Accounting

This section introduces master data that serves as a foundation for transactions in accounts receivable accounting, accounts payable accounting, asset accounting, and bank ledger accounting. Let's begin with subledger accounts.

Subledger Accounts

General ledger accounts record the cumulative accounting data of financial transactions and subledger accounts. Subledger accounts are used to record the financial details of all business transactions. For instance, a general ledger accounts receivable account includes all financial records for receivables, but they don't show how much each customer owes the company. You would need to look at the subledger account for the customer to see customer-specific financial details. Subledger accounts are generally categorized in the following way:

- **Customer accounts**
  A customer in financial accounting is also a customer in sales and distribution. The customer master record is called a customer account when relevant to accounting. A customer account is master data in accounts receivable accounting.
- **Vendor accounts**
  A vendor in financial accounting is also a vendor in purchasing. The vendor master record is called a vendor account when relevant to accounting. A vendor account is master data in accounts payable accounting.
- **Asset accounts**
  For each fixed asset of the company, you'll need to create an asset account in the system. An asset account is master data in asset accounting.
- **Contract accounts receivable and accounts payable**
  These accounts are held by business partners where posting data for contracts is recorded.

Subledger accounts are connected to the general ledger through reconciliation accounts.

Business Partner Master Record

Business partners represent persons, organizations, and groups with which your company does business. In SAP S/4HANA, you cannot create customer and vendor master records directly. Instead, you first create a business partner master record centrally and then assign the desired roles (vendor or customer) to the business partner; this two-step method is called the *new business partner approach* in SAP S/4HANA. Three structural objects are essential for the creation of a business partner master record:

- Business partner category
- Business partner roles
- Business partner grouping

To create a *business partner master record*, you must choose one of the following business partner categories, as shown in Figure 2.2:

- **Person**
  Enter the first and last name of the person and add the other details (e.g., gender and title).
- **Organization**
  Enter the name of the organization (company), legal form and entity, and the industry.
- **Group**
  Enter at least two names (e.g., names of a married couple).
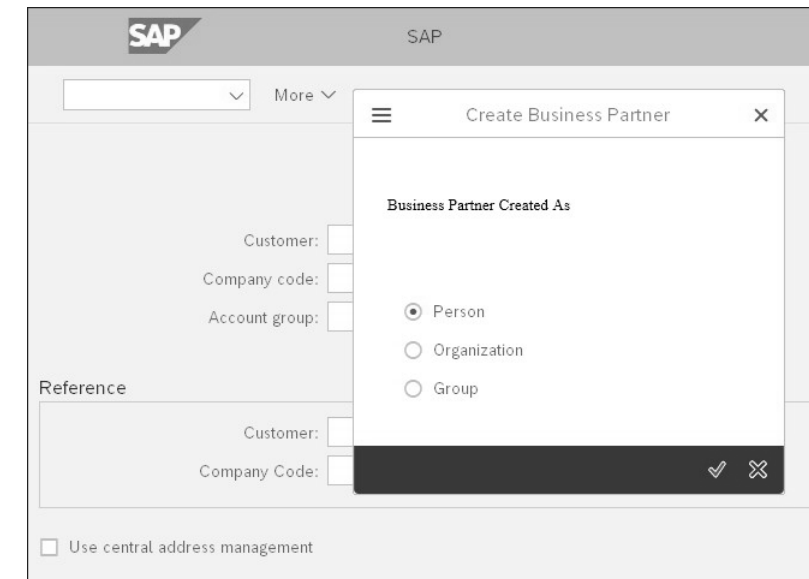
Figure 2.2 Business Partner Category Required First When Creating a Business Partner Master Record

Master data is a foundation of business transactions in the system. To support the various requirements of business processes, business partner master data is structured into *business partner roles* maintained at the following organization levels:

- **Business partner general role**
  After choosing the business partner category, you need to maintain the data in the business partner general role (**Business Partner (Gen.)**) data. This role is maintained at the client level and contains generic information about the business partner, such as an address, language, and bank information.
- **Financial accounting customer and customer roles**
  Customers in accounting are also customers in sales and distribution, which means using two different data types might be helpful to support transactions in financial accounting as distinct from sales and distribution transactions. The system supports this requirement by providing customer and vendor roles for business partners. For instance, the financial accounting customer (**FI Customer**) role for a business partner stores the data relevant for accounts receivable transactions, while the customer role includes sales-relevant data. The financial accounting customer role data is maintained at the company code level. If the customer does business with multiple company codes, you'll need to create a financial accounting customer role for each company code. Customer role data is maintained at the sales organization level.
- **Financial accounting vendor and vendor roles**
  Similarly, vendors in accounting are also vendors in purchasing, and you need different types of vendor data for both processes. The financial accounting vendor (**FI Vendor**) role for a business partner includes accounts payable-relevant

data, while the vendor role contains data relevant to transactions in purchasing. Financial accounting vendor role data is maintained at the company code level, while you'll maintain vendor role data at the purchase organization level.

We'll discuss customer and vendor roles in more detail for source-to-pay in Chapter 4 and lead-to-cash in Chapter 5.

When you create a business partner master record, an internal business partner number is assigned. This number uniquely identifies the business partner within the enterprise (the client). When you extend a business partner with a customer role, the system assigns an external customer number to the customer. This number uniquely identifies the customer among your company's customers. The customer number also identifies the customer's subledger account in accounts receivable. The system asks for this customer number when you want to use a customer master record in any transaction, such as creating a customer's sales order and displaying the balances in a customer's account. If the customer is also a vendor for your company, you can extend that business partner with a vendor role. In this case, an external vendor number is assigned to the business partner. Thus, based on roles, a business partner may have three different numbers in the system: a business partner number, a customer number, and a vendor number. The intervals for external and internal numbering are defined by maintaining *business partner groupings* in Customizing. Each business partner in the system must be assigned to a business partner grouping.

2.2.3   Data Assignments

By assigning organizational data in financial accounting, you can map your enterprise structure in accounting into SAP S/4HANA. The following organizational data assignments are possible within financial accounting:

- Several company codes can be assigned to a client. A company code can be assigned to only one client.
- Segments are created at the client level, and a client may have several segments.
- Several profit centers can be assigned to a segment. A profit center can be assigned to only one segment.
- Several business areas can be activated for a single company code. A business area can be activated for several company codes.

The following master data assignments are possible within financial accounting:

- General ledger accounts are managed at the company code level. A general ledger account can belong to only one company code. Company code-specific data for a general ledger account master record are defined in the company code segment.
- Customer and vendor accounts are subledger accounts, and they must be assigned to reconciliation accounts. A customer (or vendor) can be assigned to

only one reconciliation account. Several customers can be assigned to a single reconciliation account.

- Asset accounts are subledger accounts, but an asset account can be assigned to multiple general ledger accounts, such as reconciliation accounts, accumulative depreciation accounts, and depreciation expense accounts. Multiple assets can be assigned to these general ledger accounts. An *account determination key* is the mechanism connecting an asset to various general ledger accounts. The account determination key is defined in Customizing and linked to various general ledger accounts. Then account determination key is assigned to the asset via the asset class in the asset master record.
- A profit center must be assigned to a company code if several company codes exist in the controlling area.
- You can assign profit centers indirectly to fixed assets using the cost center stored in the asset master record.
- A company code must be assigned to an operational chart of accounts. Multiple company codes can use the same chart of accounts. In this case, the general ledgers of these company codes will have an identical structure.

2.3   Key Processes of Financial Accounting

In this section, we cover the following key processes of financial accounting:

- General ledger accounting
- Accounts receivable accounting
- Accounts payable accounting
- Asset accounting
- Bank ledger accounting

2.3.1   General Ledger Accounting

The crucial task of general ledger accounting is to enable a full representation of external accounting and a comprehensive overview of general ledger accounts, which record summary totals of subledger accounts and financial transactions. In particular, the central role of general ledger accounting is to support external reporting via financial statements available at any time. In the system, the general ledger accounting application component is fully integrated with all other modules and synchronously records all accounting-relevant system updates of business transactions (e.g., the primary postings and settlements from internal accounting).

A general ledger is a central record-keeping ledger used to sort, store, and summarize accounting data that flows from subledgers and business transactions. Your

company's financial statements are generated from the summary totals calculated in general ledgers. In the system, you can use multiple (general) ledgers to perform parallel accounting, which is vital for multinational companies with multiple company codes in different countries so they can meet the different accounting principles and reporting standards in each country. One of these ledgers must be the leading ledger, which will be based on the accounting principles (e.g., IFRS) expected for consolidated financial statements. You can define only one leading ledger in the system, which must be integrated with all parallel (nonleading) ledgers. When the leading ledger receives a posting, parallel ledgers are automatically updated. Parallel ledgers can be based on different accounting principles (e.g., UK GAAP for the United Kingdom, US GAAP for the US, and HGB for Germany) to meet different countries' local reporting standards, as shown in Figure 2.3. Note that parallel ledgers are not subsidiary ledgers.
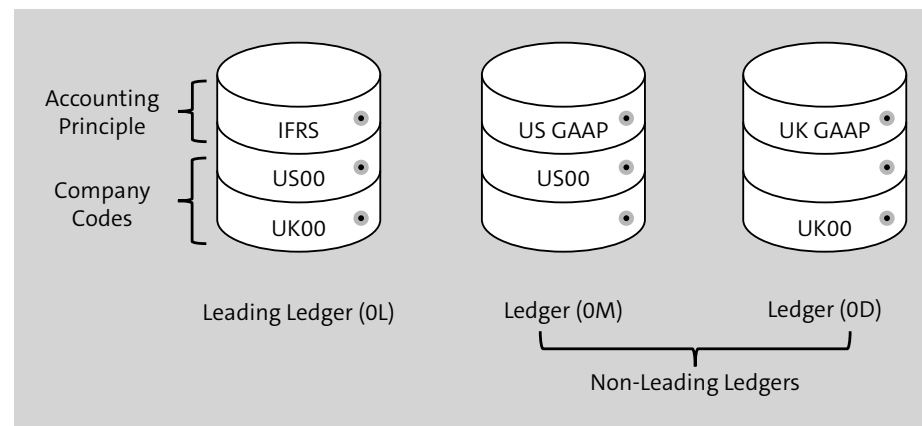
Figure 2.3 Parallel Ledgers with Different Accounting Principles

To configure general ledger accounting, you'll first create your company codes and controlling areas and make the settings for fiscal year posting periods and currencies. You can define fiscal years and their posting periods in the form of fiscal year variants and assign variants to company codes. A fiscal year is a period for which your company creates financial statements. The fiscal year resides in the header part of all accounting documents in the system. Currency is the legal means of payment in a country and is assigned to a company code. The next step is to create and configure the general ledgers. For parallel accounting, the system allows you to create multiple general ledgers, but one of these ledgers must be designated the leading ledger. Company codes are assigned to various ledgers (for different accounting principles), but you must assign all company codes to the leading ledger. For each company code, the system must know which currency is used to manage the assigned ledger. Figure 2.4 shows some example company codes with their currencies, assigned to the leading ledger **0L**.

Figure 2.4 Company Code Settings for the Leading Ledger

Finally, you must assign one accounting principle to each combination of ledger and company code, as shown in Figure 2.5.

Figure 2.5 Accounting Principle Assignment for Ledger and Company Code

Now, let's dive more deeply into the specific objects and associated processes that fall within general ledger accounting.

General Ledger Accounts

In Customizing, you must define the following structural objects before creating a general ledger account master record:

- List of charts of accounts
- Charts of accounts
- Account groups

You can use the *list of all charts of accounts* to quickly manage, create, and define charts of accounts that will be used in the client, as shown in Figure 2.6.

Figure 2.6 List of All Charts of Accounts

A *chart of accounts* is an ordered list of all general ledger accounts used by one or more company codes. A chart of accounts does not include any balances or transactions from the general ledger accounts. For each general ledger account, the chart of accounts includes an account number, account name (definition), and the type of general ledger account (P&L account or balance sheet account). In the financial accounting information system, you can use Transaction S_ALR_87012333 (G/L Account List) to display a chart of accounts. For example, Figure 2.7 shows a global chart of accounts in the system.

Figure 2.7 Global Chart of Accounts

General ledger accounts are managed at the company code level and structured according to the chart of accounts. You can assign a company code to a chart of accounts in Customizing, as shown in Figure 2.8. Each company code must be assigned to a chart of accounts.

Figure 2.8 Company Codes Assigned to the Global Chart of Accounts

If you have multiple company codes in a client, you can either assign all company codes to the same operating chart of accounts or use two additional charts of accounts. Assigning all company codes to the same operating chart of accounts means you'll use identically structured general ledger accounts (with similar accounting requirements) in all company codes. You might prefer this approach if all company codes operate in the same country. If you have company codes in different countries, you may need general ledger accounts with different accounting requirements. In this case, you can assign up to two additional charts of accounts to your company codes.

In the system, in terms of their functions, three types of charts of accounts exist:

- **Operating chart of accounts**
  This kind of chart of accounts lists the general ledger accounts a company code uses in its daily postings. The assignment of one operating chart of accounts is mandatory for each company code.
- **Group chart of accounts**
  This kind of chart of accounts includes the general ledger accounts used by the entire corporate group and enables group reporting.
- **Country-specific chart of accounts**
  This kind of chart of accounts contains the general ledger accounts used to meet a country's legal reporting requirements.

When you create a general ledger account, you must select an *account group* in the chart of accounts segment of the general ledger account master record. Each general ledger account must belong to an account group. Account groups categorize your general ledger accounts into user-defined segments. You can create account groups in Customizing for each chart of accounts. Fixed asset accounts, material accounts, cash accounts, bank accounts, reconciliation accounts, and P&L accounts are examples of account groups common in the system. Account groups are identified by four-digit codes in the system. The account group determines the characteristics that control how the general ledger account can

be created. When you create an account group, you can specify the following options:

- **The number range**
  The allowed range from which an account number can be selected. For instance, Figure 2.9 shows that a number interval from **220000** to **300000** is valid for accounts in the **Fixed Assets** account group.
- **The screen layout (field status)**
  You can select an account group and define field statuses for different data field categories, such as account control, account management, document entry, and bank/financial details. By defining a field status for each field group, you can specify which fields are required, optional, suppressed, and displayed when a general ledger account is being created in that account group, as shown in Figure 2.10.

Figure 2.9 Account Groups and Number Intervals

Figure 2.10 Fixed Assets Account Group: Field Status for the Fields in the Account Control Category

Figure 2.11 shows the relationships among charts of accounts, account groups, company codes, accounting principles, and ledgers.
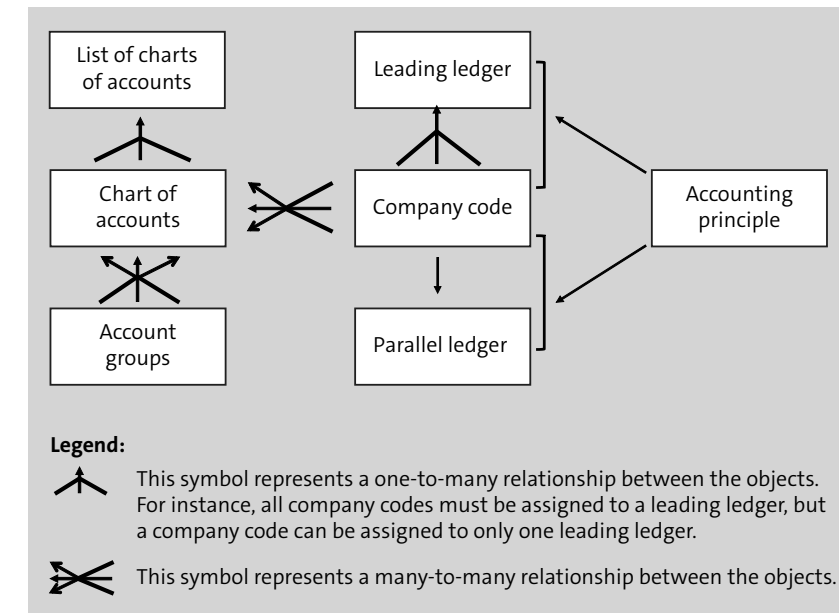
Figure 2.11 Relationships among Financial Accounting Objects

Data in General Ledger Accounts

The company codes assigned to the same chart of accounts can use identically structured general ledger accounts (not necessarily identical transactions). However, different company codes should also have some company code-specific settings in their general ledger accounts. General ledger account master data is structured into several segments to support this requirement (i.e., chart of accounts segment, company code segment, and controlling area segment). To create and edit a general ledger account master record, you must maintain data at these segments.

From a financial accounting point of view, general ledger account master data has two important data segments:

- Chart of accounts segment
- Company code segment

Figure 2.12 shows sample data in two different general ledger accounts (with identical chart of accounts, account type, and account number) managed by two different company codes. Notice that the accounts are assigned to the same chart of accounts and share the same data in the chart of accounts segment.

Figure 2.12 Data in Chart of Accounts and Company Code Segments in a General Ledger Account Master Record

Let's first take a closer look at the *chart of accounts segment*, where you'll define data at the chart of accounts level. The data in this segment is shared by all company codes sharing the same chart of accounts. To create a general ledger account, you must first provide some information in the chart of accounts segment: the general ledger account type (**G/L Account Type**), an account group (**Account Group**), descriptions for the general ledger account (**Short Text** and **G/L Acct Long Text**), and a consolidation account number (**Trading partner**), as shown in Figure 2.13. Note that the account group, which controls the status of the data fields in the company code segment, was described in more detail earlier in this section.

Your selection in the **G/L Account Type** dropdown list in the chart of accounts segment plays a crucial role in determining the connection between the general ledger account and its financial statements (e.g., balance sheets and income statements). In particular, the **G/L Account Type** specifies whether the account is one of the following types of general ledger accounts:

- **Balance sheet accounts**
  These accounts are the accounts posted from business transactions. For instance, Figure 2.13 shows the accounts receivable account, which receives postings from sales and distribution.
- **Primary cost and revenue accounts**
  These accounts are income statement accounts that reflect a company's operating expenses, such as payroll, labor expenses, and administration costs. Primary cost and revenue accounts are integrated with controlling.

- **Secondary cost accounts**
  These accounts are used in controlling to record internal value flows in the organization, such as internal activity cost allocations and settlements.
- **Nonoperating expense or income accounts**
  These accounts are income statement accounts that reflect gains and losses from activities not relevant to the company's primary businesses. For instance, if your company's primary business is manufacturing, then income from an asset's sale or profit from a financial investment is regarded as nonoperating income. A donation to a charity is an expenditure but not an operational cost. Nonoperating expense or income accounts reflect expenses that were never associated with any controlling object before, such as cost center, order, or profitability segment. Thus, these accounts are not linked to controlling.

Figure 2.13 Chart of Accounts Segment of the General Ledger Account Master Record

Now, let's consider the *company code segment*. Data at the company code segment varies from one company code to another. In this segment, you can define how a specific company code manages the account. The data fields you must maintain in the company code segment are determined by the account group you select in the

chart of accounts segment. For instance, if you choose the **Reconciliation Account** option from the **Account Group** dropdown list, you must make a selection in the **Recon. Account for Acct Type** dropdown list in the **Control Data** view, as shown in Figure 2.14. Otherwise, this field will not be visible. Using this field, you can determine which type of subledger accounts (vendor, customer, asset, or contract accounts receivable) can be assigned to this reconciliation account.
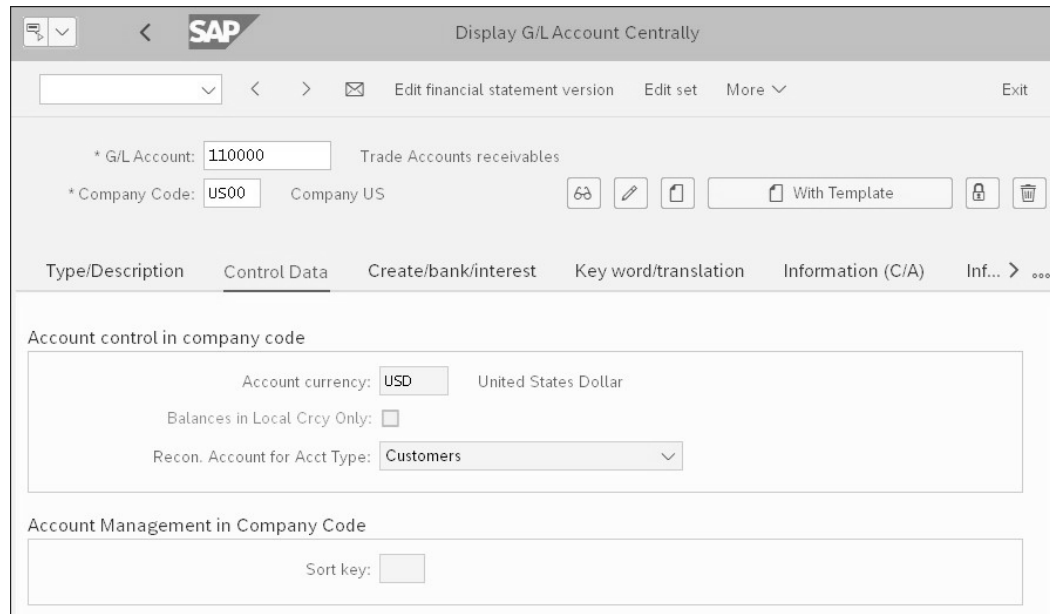
Figure 2.14 Reconciliation Account for Account Type Field in the Company Code Segment

Other data you can maintain in the company code segment include the account currency, tax category, bank data, interest data, account control, and account management data, as shown in Figure 2.15.

The income statement (P&L) accounts are integrated with controlling. From a controlling perspective, the master record of general ledger accounts for cost and revenue has an additional segment: the *controlling area segment*.

Both primary costs/revenue accounts and secondary cost accounts are created like other general ledger accounts. If you choose the account group as **Profit and Loss**, then you must maintain some controlling area-specific data in addition to chart of accounts-specific and company code-specific data. The cost element category (**CElem category**) and internal unit of measure (**Internal UoM**) are examples of controlling area-specific data, as shown in Figure 2.16. The system provides the cost element categories to classify the primary and secondary cost elements and determine the controlling transactions through which cost elements can be posted directly or indirectly.
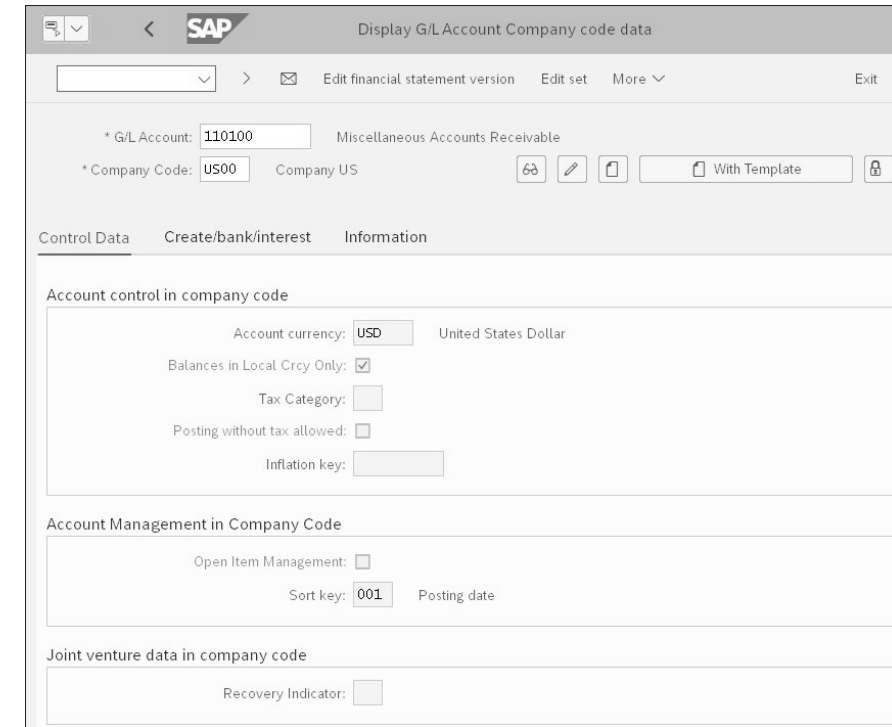
Figure 2.15 Company Code Segment of the General Ledger Account Master Record
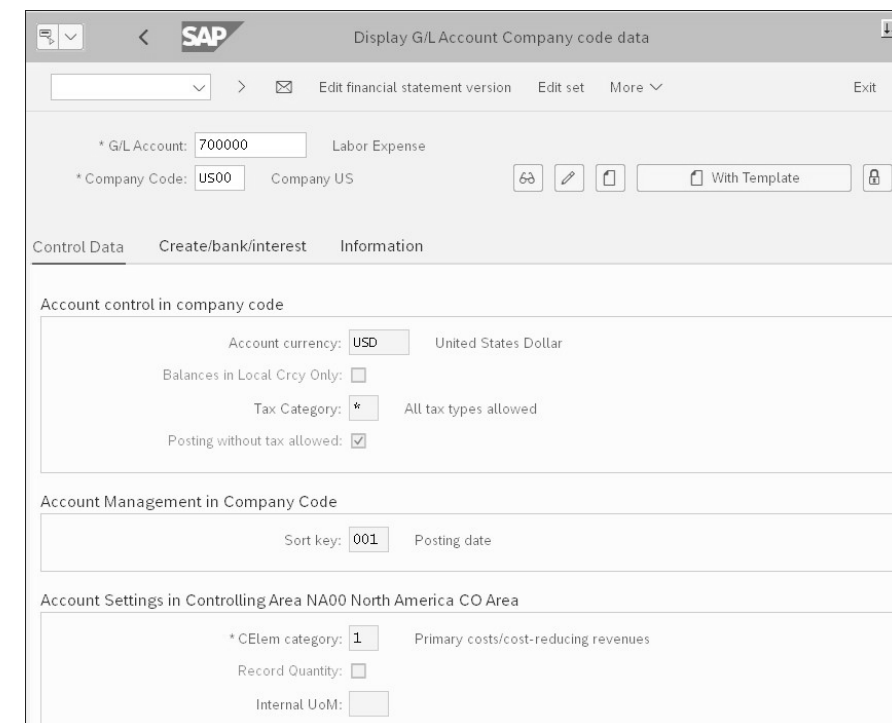
Figure 2.16 Controlling Area-Specific Data in a General Ledger Account Master Record

Posting a General Ledger Account Document

A general ledger is managed at the company code level. To post a general ledger account document, you must first choose a company code and then maintain the following data at the header and item levels, as shown in Figure 2.17:

- **Header-level data**
  Includes the document date, posting date, reference, currency, header text, and cross-company code number (to create multiple documents in different company codes).

- **Item-level data**
  Includes the general ledger account number, debit/credit, amount in document currency, tax category, tax jurisdiction code, business area, and other assignment objects such as orders, project work breakdown structure (WBS) elements, cost centers, and profit centers.

Figure 2.17 General Ledger Document Entry Screen

The information you must enter at the item level varies depending on the type of general ledger account you're posting. For instance, a document item for a bank account may not require a tax category, or you must enter a cost center when posting to an expense account.

When you complete the general ledger document entry, an accounting document is created. Many documents exist in the system, but as shown in Figure 2.18, you can quickly identify an accounting document from the following fields in the header:

- **Document Number**
- **Company Code**
- **Fiscal Year**
- **Currency**

Figure 2.18 General Ledger Account Document with Header Details

You'll see the document type in the general ledger account document's header details, in the **Document type** field. In the system, a document type is identified using a two-character key, and each document is assigned a document type. For instance, as shown in Figure 2.18, the document type **SA** stands for general ledger account document.

Another important key in the general ledger account document is the *posting key*, which can be seen in the general ledger account document's item-level data (the **Key** column shown in Figure 2.18). When you post a general ledger account document, the system automatically assigns each line a posting key. The posting key controls the following item-level settings:

- The account type (general ledger account or subledger account) you're posting
- Type of posting (debit or credit)
- The field status of additional details

>> **Note**
> You do not need to enter the posting key manually in the line items during the general ledger account document entry. You only need to enter a general ledger account number and choose a debit/credit indicator, and the system generates the posting key from these entries.

In the system, the posting key is identified by a two-digit number. For instance, posting keys **40** and **50** post debits and credits, respectively, to general ledger accounts. In Customizing, you can define document types (and document number ranges) and the posting keys (the left and right sides of Figure 2.19, respectively).
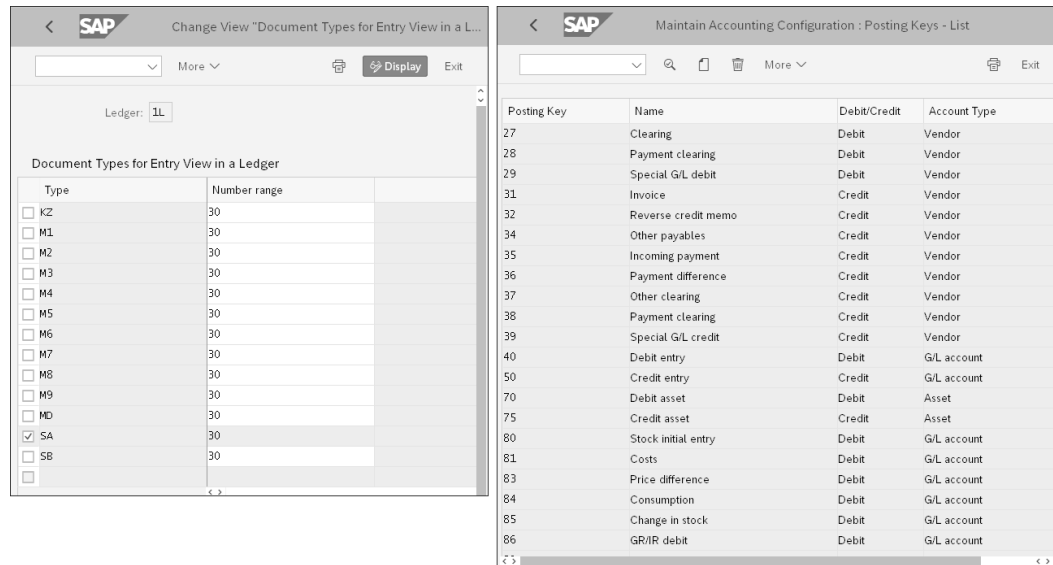
Figure 2.19 Document Types and Posting Keys in Customizing

Document Splitting

Document splitting is a function of general ledger accounting in SAP S/4HANA. Document splitting enables you to create complete financial statements for several dimensions, including the following:

- Segments
- Profit centers
- Business areas
- Custom-defined segments

To use document splitting, you must activate the functionality in Customizing. You can activate document splitting at the client level. To avoid using document splitting in some company codes within a client, you can deactivate document splitting for specific company codes, as shown in Figure 2.20.
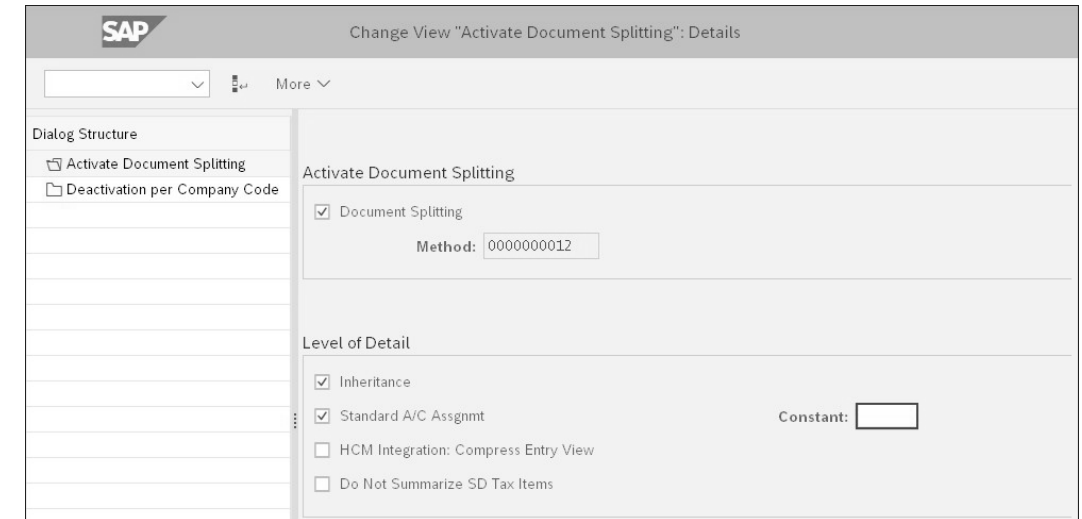
Figure 2.20 Document Splitting Activation in Customizing

To activate document splitting, you must choose a document splitting method, which includes document splitting rules describing which items in a document the system should split and how. Document splitting rules are defined by the item categories assigned to general ledger accounts for which the system split postings.

When you display accounting documents, you can choose two view options: **Entry View** or **General Ledger View**. If document splitting is active for your company code, you'll see the segment-level split of the line items you entered during the accounting document posting.

If you enter expense accounts in a document posting, you also must enter a cost object, for instance, a cost center. Cost centers are assigned to profit centers linked to segments in the system. Thus, the derivation of segment splits for the line items posted to expense accounts is straightforward. However, for the line items posted to balance sheet accounts, the system uses splitting rules defined in Customizing. Based on the proportions predefined in Customizing, the system splits a line item into segments.

The following example shows how the document splitting works in the invoice verification step of procurement. Assume that you have a vendor's invoice with the items shown in Table 2.1.

Posting Key	Account	Cost Center	Profit Center	Segment	Amount
31	Vendor XYZ				1000
40	Expense	CCA	PCA	Seg A	400
40	Expense	CCB	PCB	Seg B	600

Table 2.1 Vendor's Invoice Line Items

When you verify the invoice, the system creates an accounting document with the line items in the general ledger view, as shown in Table 2.2.

Document No: 1999000	Document Date: 11/01/2020	Posting Date: 11/01/2020	Company Code: US00	Fiscal Year: 2020	
Posting Key	**Account**	**Cost Center**	**Profit Center**	**Segment**	**Amount**
31	Acct Payable			Seg A	400
31	Acct Payable			Seg B	600
40	Expense	CCA	PCA	Seg A	400
40	Expense	CCB	PCB	Seg B	600

Table 2.2 Invoice Document Line Items: General Ledger View

Notice that the first line item in Table 2.1 has been split into two line items in Table 2.2. Now, we have four line items in the accounting document.

Our example shows the splitting of an invoice document. In Customizing, you can designate other document types for splitting, such as contract settlements, vendor documents, and more, as shown in Figure 2.21.
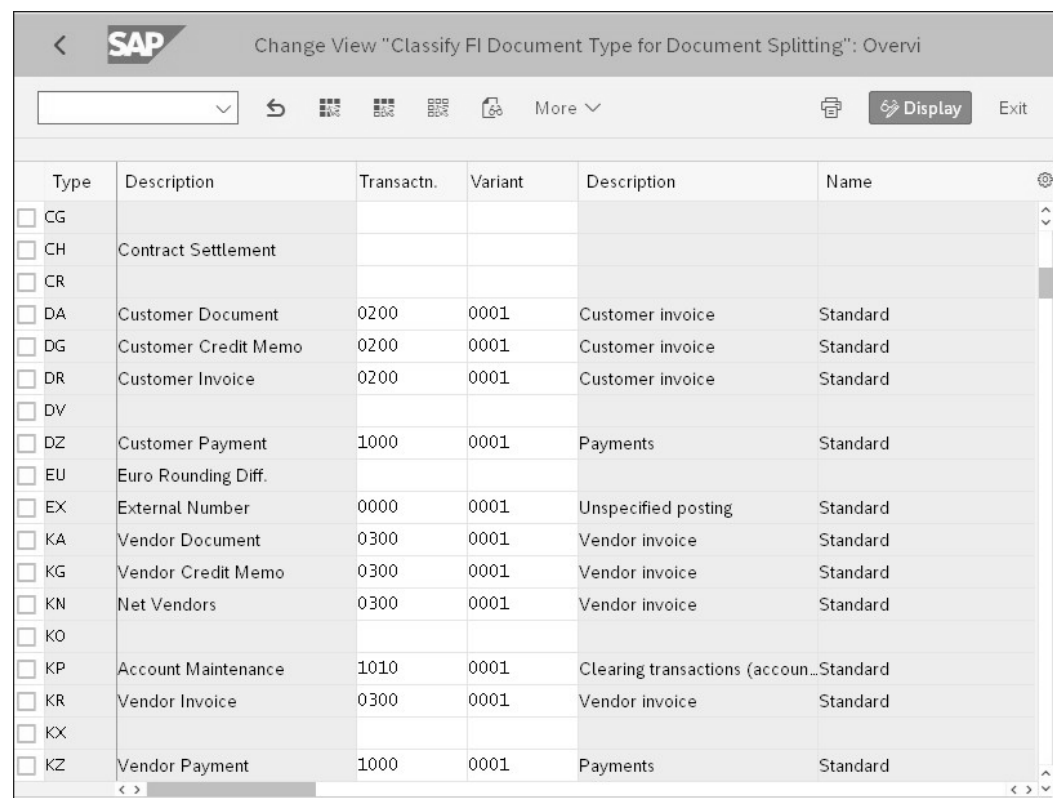
Figure 2.21 Classification of Documents for Splitting

Financial Statements

A *financial statement* is an official report that outlines the balances of the general ledger accounts (balance sheet and income statement accounts) in a structure. During year-end closing, every company prepares the following basic financial statements, according to local reporting standards:

- **Balance sheet**
  A balance sheet provides a comparison of assets and liabilities. Fixed assets, materials in inventory, receivables of the company, and cash in the bank are examples of items reported in the balance sheet's assets section. Loans and payables to vendors are examples of items reported in the liabilities section.
- **Profit and loss (P&L) (income) statement**
  A P&L statement, or income statement, provides a comparison of the company's revenues and expenditures relevant to the company's core business operations.

Financial statements are created at the company code level. The structure of financial statements and the general ledger accounts that inform the financial statements are defined in the form of a *financial statement version*. You must define financial statement versions in Customizing to structure and print out financial statements, as shown in Figure 2.22.
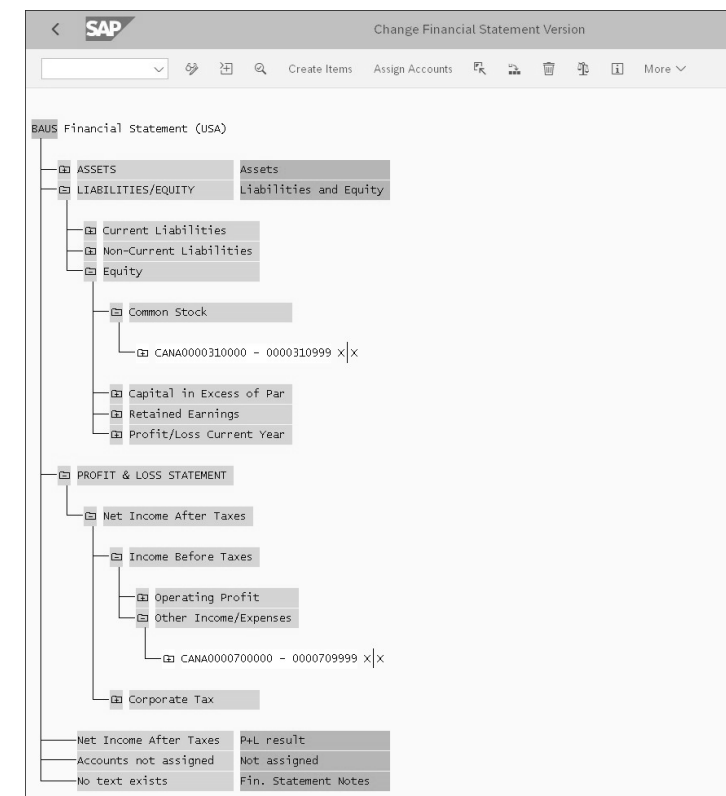
Figure 2.22 Financial Statement Version for the US

2.3.2   Accounts Payable

Concerned with accounting records for vendors, accounts payable involves subledger (vendor) accounts to track money owed or paid to individual vendors and general ledger accounts such as accounts payable reconciliation accounts and goods receipt/invoice receipt clearing accounts (also referred to as GR/IR accounts).

The accounting data for all your vendors is administered and recorded in the system's accounts payable application component. Vendor accounts are subledger accounts connected to the general ledger through reconciliation accounts. In the vendor master record, you must assign an accounts payable reconciliation account to each vendor. Accounts payable is fully integrated with the general ledger. All updates/postings to accounts payable are synchronously recorded in the general ledger. The accounts payable receives most of its data from the transactions of the purchase-to-pay business process. For instance, the GR/IR account receives data from goods receipt postings. The accounts payable reconciliation account is updated when a vendor account is posted during invoice verification and payment. Vendor invoices are entered into the system using Transaction FB70 (Document Entry). You can pay out payables in purchasing manually or by using the payment program, a part of the accounts payable application component.

Figure 2.23 shows synchronous debit and credit postings in general ledger and subledger accounts during goods receipt, invoice verification, and payment processing in the purchase-to-pay business process.
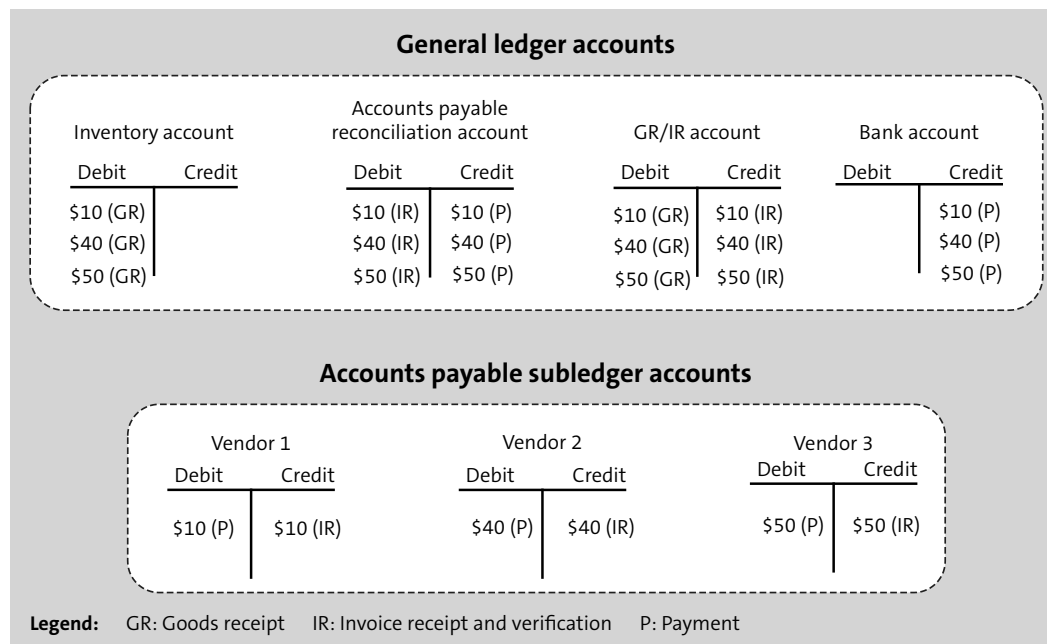
Figure 2.23 Data Flow between Accounts Payable Subledger Accounts and General Ledger Accounts during Transactions in a Purchase-to-Pay Process

More detailed explanations of the vendor master data and payment process are available in Chapter 4.

2.3.3   Accounts Receivable

Accounts receivable is concerned with accounting records for customers and involves subledger (customer) accounts to track the money owed or paid by individual customers and general ledger accounts, such as accounts receivable reconciliation accounts and other miscellaneous accounts receivable accounts.

Accounting data for all your customers is administered and recorded in the system's accounts receivable application component. Customer accounts are subledger accounts connected to the general ledger through reconciliation accounts. In the customer master record, you must assign an accounts receivable reconciliation account to each customer. Accounts receivable is fully integrated with the general ledger. All updates/postings to accounts receivable are synchronously recorded in the general ledger. Accounts receivable accounts receive most of their data from the transactions of the order-to-cash business process. For instance, an accounts receivable reconciliation account is updated during the billing and payment. The general ledger accounts integrated with accounts receivable also get updates from order-to-cash transactions. For instance, the cost of goods sold (COGS) and inventory-trading goods accounts are updated when you post goods issues for customer orders in sales and distribution.

More detailed explanations of the customer master data and billing process are available in Chapter 5.

2.3.4   Asset Accounting

Asset accounting is a key financial accounting process that mainly focuses on monitoring and managing fixed tangible assets, such as manufacturing plants, buildings, land, machinery, office furniture, equipment, and vehicles. A *fixed tangible asset* is a piece of physical property that a company owns for the long term and uses in its core business operations. SAP S/4HANA provides asset accounting as a submodule of the financial accounting module. The asset accounting module supports the entire lifecycle of fixed tangible assets, from initial acquisition to asset retirement.

> **Tip**
> Do not confuse fixed (long-term) tangible assets with current tangible assets, which are either in cash form or can be sold for cash if needed in liquidation, such as cash in the bank, cash equivalents, inventory, and accounts receivable. Your current and fixed (long-term) assets are reported in different sections of your company's balance sheet. Accounts receivable, bank ledger, and inventory accounts record the financial value of your current tangible asset and update the balance sheet's totals. Asset accounts in SAP are subledger accounts for fixed/tangible assets.

You can also manage intangible assets (e.g., patents, copyrights) in the asset accounting module. Intangible assets do not retire or depreciate.

The asset accounting module is fully integrated with the other system modules and supports all asset posting and legal reporting requirements for a company's assets.

We'll unpack asset accounting objects and processes in the following sections.

Asset Master Data

From a financial accounting perspective, asset accounts are subledger accounts connected to the general ledger through a reconciliation account. From the plant maintenance point of view, assets are technical objects (equipment/functional location) that must be maintained. In Customizing, you can set up the system to create/edit an asset master record in asset accounting and an equipment master record in plant maintenance synchronously.

To create an asset master record, you must enter a company code and an asset class. Each asset belongs to only one company code, and every asset in the system must be assigned to an asset class. Asset classes can be defined in Customizing. Buildings, vehicles, office equipment, assets under construction, and low-value assets are examples of asset classes, which control asset accounts and structure them according to user requirements.

An asset class controls certain features important for managing fixed assets in the system, such as the following:

- Determines the default values in the asset master record
- Controls the asset numbers that can be assigned to an asset within the asset class
- Defines the screen layout and field characteristics (required/optional/suppressed) in the asset master record
- Triggers separate balance sheet line items in which a different class of assets is reported
- Provides an account determination key that connects the asset to several balance sheet and depreciation accounts, as shown in Figure 2.24

Asset master data is structured into two segments, as shown in Figure 2.25:

- General master data: Includes views for general information, time-dependent information, account assignment information, inventory, and origin data.
- Data for asset valuation: Includes a view for depreciation areas.

Figure 2.24 Account Determination Key Pointing to Different Depreciation Accounts in the System

Figure 2.25 Asset Master Record for a Vehicle

Asset Posting

The following asset postings are possible in asset accounting:

- Purchasing and selling
- Depreciation and appreciation
- Acquisition from internal activity (production)
- Credit memos
- Asset retirement
- Adjustment postings

During an asset posting, the system creates postings to several general ledger and subledger accounts. In addition to company code, currency, account numbers, and the amounts you're posting, two crucial keys must be used in all asset postings:

- Transaction type
- Posting key

The transaction type (**TType**) classifies the type of asset posting (e.g., acquisition, retirement, or transfer) and determines where (in which column) the transaction is listed on the asset history sheet. The posting key (**PstKy**) is a two-digit numerical key that determines the account type you're posting to, the type of posting (debit/credit), and the layout of entry screens, as shown in Figure 2.26.

Figure 2.26 Acquisition Posting with the Vendor

Asset Acquisition

The following asset acquisition methods are supported by the system:

- External acquisition
- Acquisition from internal activity

Let's begin with *external acquisition*. You can buy an asset using standard functions of purchasing, such as a purchase order (for a vendor), a goods receipt, or an invoice receipt. When you create a purchase order item for an asset, you can create an asset master record and use it as an account assignment object. (You must choose the account assignment category **A**.) In this case, the system capitalizes the asset during the invoice receipt.

The system also supports external asset acquisitions within asset accounting by using postings integrated (or not integrated) with accounts payable accounting in the following ways:

- **Integrated asset acquisition posting**
  You can buy an asset by posting an asset acquisition in asset accounting with the vendor but without reference to a purchase order. A prerequisite to this method is to define a *technical clearing account for integrated asset acquisition* as a reconciliation account. In this method, you can use the asset posting Transaction F-90 with the following entries:
  - A debit to the asset clearing account with the posting key **70**, transaction type **100** (acquisition)
  - A credit to the vendor account with the posting key **31**
- **Nonintegrated asset acquisition posting**
  You can buy an asset without using the vendor master record or without reference to a purchase order. In this case, you can post the acquisition of a purchased asset to a clearing account rather than using integrated posting to accounts payable. You can use Transactions ABZON and F-91 for nonintegrated asset acquisition.

With integrated asset acquisition posting, the system creates two documents:

- **Operational document**
  This document includes the following information:
  - Includes a line item (debit) (posting key **70**) posted to the technical clearing account for integrated asset acquisition
  - Includes a line item (credit) (posting key **31**) posted to accounts payable
  - Does not include line items for specific accounting principles
- **Valuation document**
  For each accounting principle assigned to the company code, the system generates a separate valuation document that includes the following:
  - A line item (credit) (posting key **75**) posted to the technical clearing account for integrated asset acquisition
  - A line item (debit) (posting key **70**) posted to the asset account (equipment)

The documents for nonintegrated asset acquisition posting have a similar structure, with line items posted to the asset clearing account.

Next, the *acquisition from an internal activity* method includes capitalization of assets' costs collected in maintenance or production orders. You can either post the acquisition from internal activity manually or settle the orders to a fixed asset. (You'll need to add the asset as a settlement receiver in the settlement rule of the order.)

Asset Retirement

Like asset acquisition, you can post an asset retirement with or without integration with accounts receivable accounting. The asset accounting module provides retirement postings to support the following asset retirement types:

- **Asset retirement with a revenue (with or without customer)**
  You can sell an asset by posting an asset retirement with the customer. In this case, you can use Transaction F-92 to debit the customer account and credit the revenue account.
  Another approach is to use Transaction ABAON (Asset Sale Without Customer). In this case, the asset is sold, the revenue account is credited, and a clearing account is debited.
- **Asset retirement without a revenue**
  To remove an asset from your asset portfolio without generating any revenue (e.g., by scrapping), you can use Transaction ABAVN, which does not create any postings to revenue but posts a loss from asset retirement without a revenue posting in the amount of the netbook value being retired.

Asset Depreciation

Depreciation is the reduction in the recorded value (cost) of an asset due to wear and tear during the asset's useful life. Depending on the depreciation type, the system can automatically calculate (plan) depreciation values using the depreciation keys. Planned depreciation values are not posted to general ledger depreciation accounts automatically and are kept in the system (as planned values) until you post a periodic depreciation run. The values of some depreciation types are usually planned (calculated) manually. All planned depreciation values are reflected in the asset master record (asset account) and in general ledger accounts when you post depreciation from a depreciation posting run. You can see the planned depreciation values in the asset explorer (Transaction AW01N). The periodic depreciation posting run is a system transaction that companies use to calculate their assets' cumulative depreciation during the period-end closing. A periodic depreciation posting run posts general ledger depreciation accounts by the amount of accumulated depreciation, which means the company's cumulative depreciation is reflected in the financial statement after the periodic depreciation posting run.

Depreciation values can also be posted to cost centers, internal orders, and WBS elements assigned to the asset master record.

The asset accounting module supports the following asset depreciation types:

- **Ordinary depreciation**
  A planned deduction for the actual wear and tear due to an asset's regular use. The system calculates the value of this type of depreciation automatically based on depreciation keys.
- **Special depreciation**
  A planned deduction for wear and tear based on percentage depreciations usually determined by a tax authority. The value of this type of depreciation is calculated automatically based on depreciation keys and does not consider the actual wear and tear.
- **Unplanned depreciation**
  A deduction for wear and tear due to unusual influences, such as damage, that leads to a permanent decrease in the value of an asset. The value of this type of depreciation is planned manually.
- **Transfer of reserves/reduction of acquisition and production costs**
  A reduction of an asset's depreciation base by a given amount called acquisition and production costs (APC). This type of depreciation is posted manually (without using depreciation keys).
- **Imputed interest**
  In some cases, for cost accounting purposes, you may need to calculate imputed interest on the capital tied up in an asset. The system provides depreciation keys to support the automatic calculation of this interest in different depreciation areas.

Often, a company must calculate different depreciation values in parallel for each fixed asset to meet various external and internal reporting requirements. For instance, financial statements, cost accounting, and tax calculation processes may require different fixed asset values. SAP S/4HANA supports the parallel valuation of assets by providing several *depreciation areas*. In the system, depreciation areas are identified by two-digit numeric keys. In Customizing, you can define depreciation areas and activate them for asset classes, as shown in Figure 2.27. When you create an asset master record, you'll choose an asset class, resulting in the assignment of the asset's depreciation areas. During the asset master record creation, the system allows you to deactivate some depreciation areas assigned to the asset class. Depreciation areas in an asset master record include some essential control parameters, including the following:

- Depreciation key
- Useful (estimated) life
- Depreciation starting date
- Previous usage
- Index
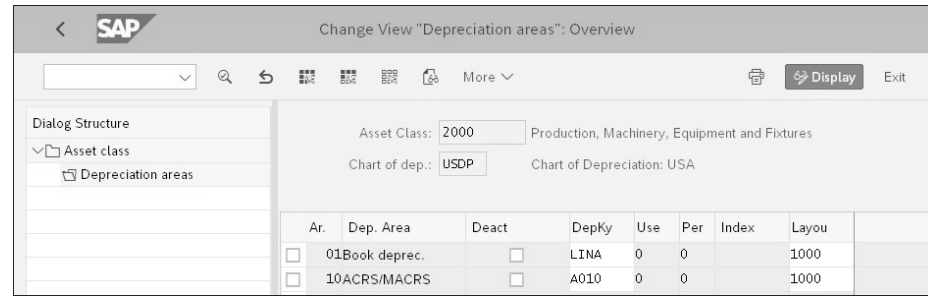
Figure 2.27 Depreciation Areas for an Asset Class

By using *depreciation keys*, you can define all control data necessary to calculate annual planned depreciation for the following depreciation types:

- Ordinary depreciation
- Special depreciation
- Imputed interest

In Customizing, you can define the depreciation calculation methods and assign them to depreciation keys. You can define the following control data in depreciation keys, as shown in Figure 2.28:

- Depreciation type (and assigned calculation method)
- Scrap value key
- Changeover method, percentage
- Control indicators
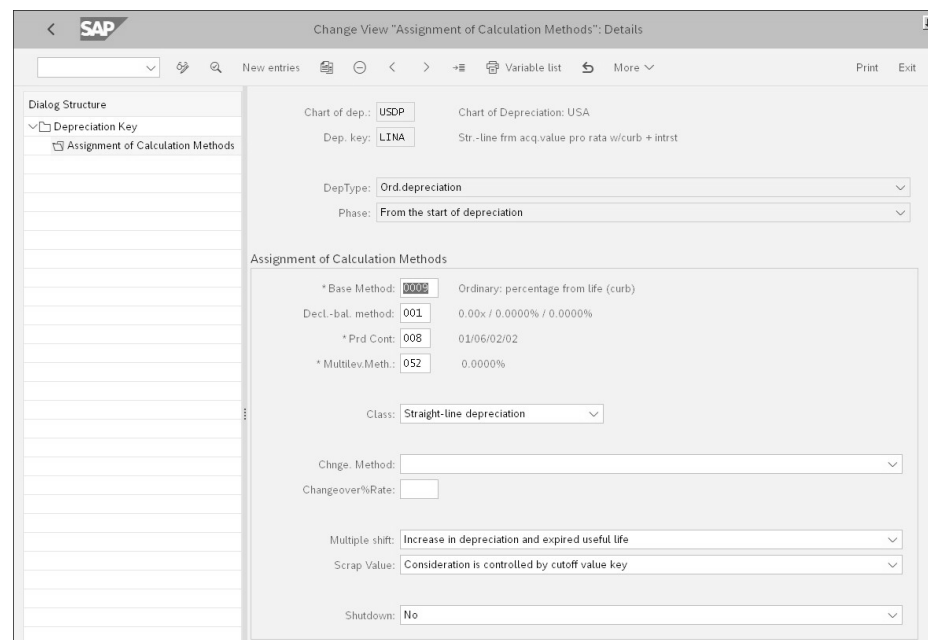
Figure 2.28 Depreciation Key in Customizing

Reporting and Monitoring

Now, let's turn to the reporting and monitoring tools available in the asset accounting module, in the asset accounting information systems, and through SAP Fiori. Some key tools include the following:

- **Asset history sheet**
  With this submodule of asset accounting information systems, you can use the asset history sheet (Transaction AR02) to create a comprehensive report for year-end closing. The structure of the asset history sheet is determined according to a country's legal reporting requirements. This sheet is a legal reporting requirement in some countries and includes all financial transactions/postings for a range of assets or asset classes.
- **Asset explorer**
  From a financial accounting perspective, an asset is an account. As shown in Figure 2.29, the asset explorer (Transaction AW01N), part of the asset accounting module, can help you see the financial transactions in this account.
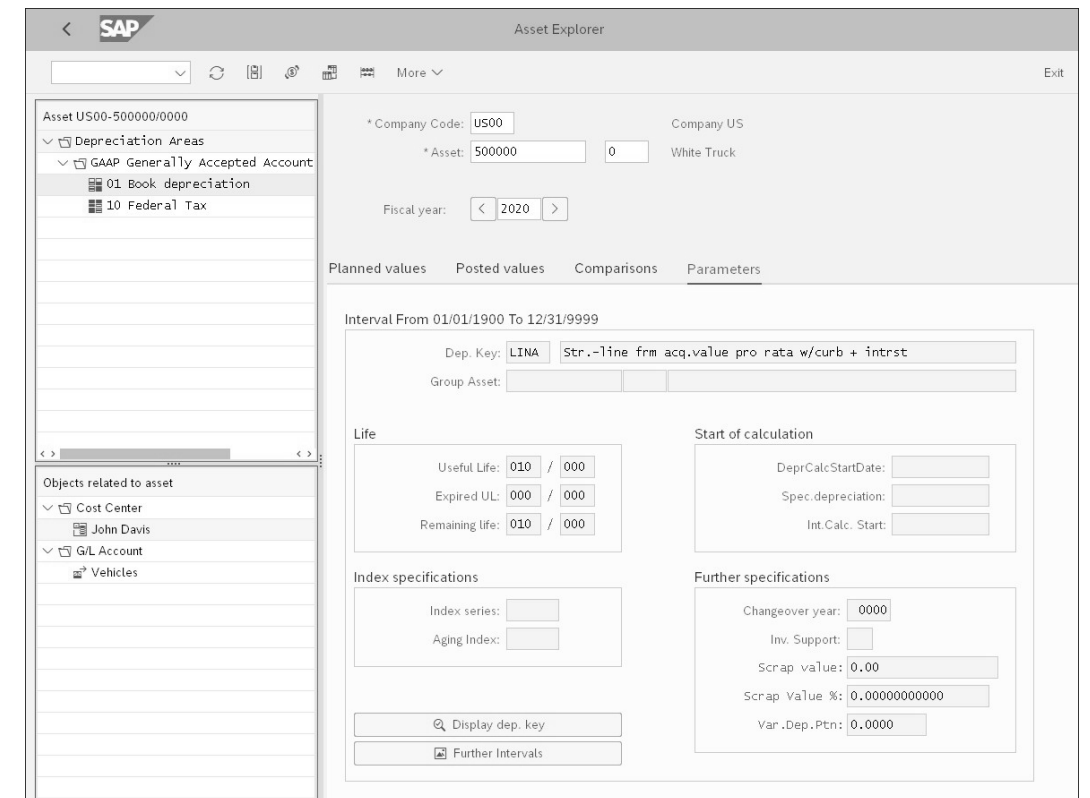
Figure 2.29 Asset Explorer and Control Data in the Depreciation Area

In particular, you can use asset explorer to perform the following actions:

- See the transactions posted to an asset (display financial accounting documents)

– See planned and posted depreciation by depreciation area, by period, for
each fiscal year

– Drill down to the details of accounting transactions

– Branch master data and other cost objects (e.g., cost center) and perform sim-
ulations

– Check depreciation area control parameters

- **Managing fixed assets in SAP Fiori**
Using the Display Asset Master Worklist app in SAP Fiori, you can collectively
manage and monitor your fixed assets. This application displays all asset mas-
ter data in a single list from which you can drill down into the asset master
record details.

2.4   Integration with Other Modules

In this section, we'll explain several potential integration scenarios for financial
accounting. We'll cover both cross-module data assignments and transactions.

2.4.1   Integration via Cross-Module Data Assignments

Cross-module data assignments in the system connect the business processes in
SAP S/4HANA and enable data flows between the system's components. Some
examples of cross-module data assignments include the following:

- **Management accounting (controlling)**
Integration between controlling and financial accounting occurs via the follow-
ing data assignments:

  – A cost center is master data in controlling. You can assign a cost center to
  fixed assets in the asset master record.

  – A controlling area is organizational data in controlling. To achieve cross-
  company code cost accounting, you must assign company codes to the con-
  trolling area. A prerequisite for this organizational data assignment is that all
  company codes assigned to a controlling area must be assigned the same
  operating chart of accounts and same fiscal year variant.

  – An internal order is master data in controlling. You can assign a general led-
  ger account as a settlement receiver to an internal order.

  – Primary cost and revenue elements are master data in controlling. These ele-
  ments are created in general ledger accounting as P&L accounts.

- **Logistics**
Organizational and master data in financial accounting can be assigned several
organizational and master data logistics processes, such as purchasing, sales
and distribution, production, plant maintenance, and Project System:

– **Project System**
You can assign project WBS elements to asset master records. A profit center
is a master record in general ledger accounting. You can assign profit centers
to project definitions, networks, network activities, or WBS elements. You
can assign a general ledger account as a settlement receiver of projects.

– **Plant maintenance**
Equipment and functional location master records can be assigned to busi-
ness areas and assets in their master records.

– **Purchasing and sales and distribution**
Purchasing organizations and sales organizations are organizational data in
purchasing and sales and distribution, respectively. These organizations can
be uniquely assigned to a company code. Business partner master records for
customers and vendors are assigned to reconciliation accounts in the finan-
cial accounting vendor role and financial accounting customer role data, as
shown in Figure 2.30.
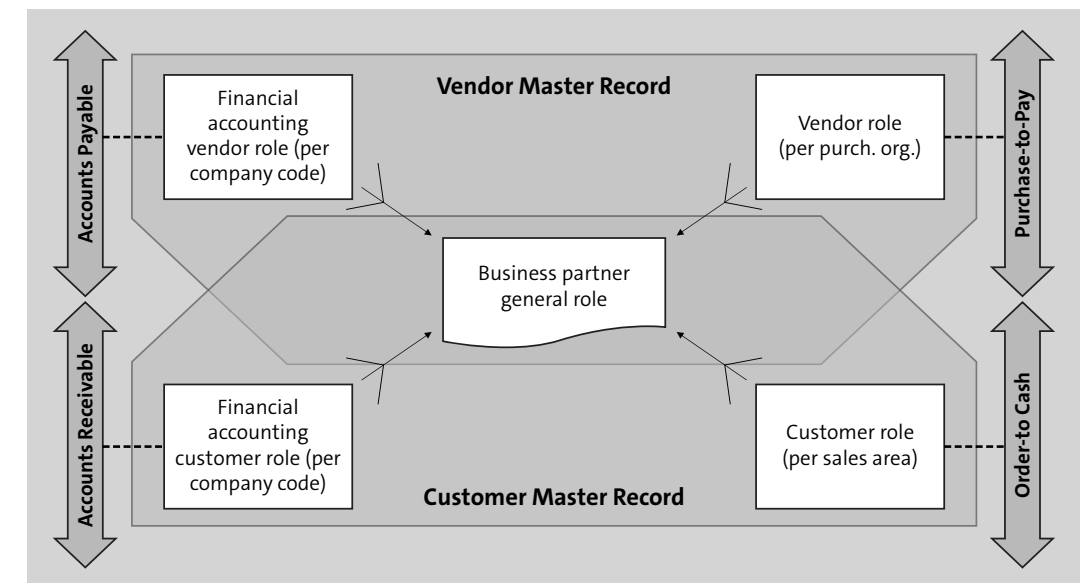
Figure 2.30 Business Partner Roles and Their Connection with Processes

- **Human experience management (HXM)**
A personnel area is organizational data in HR. You must assign each personnel
area to a company code.

2.4.2   Integration via Transactions

Other system components integrate with the financial accounting module during
business transactions in business processes. Some examples of business transac-
tions that affect financial accounting records include the following:

- **Depreciation posting runs**
  A depreciation posting run can post cost centers, WBS elements, and cost elements assigned to the asset, thus integrating asset accounting with other modules, such as controlling and Project System.

- **Asset acquisitions**
  You can use standard transactions (e.g., purchase requisitions, purchase orders, goods receipts) in materials management for external asset acquisition, which integrates materials management and financial accounting. When you create a purchase order line item for an asset, you must choose **A** as the account assignment category. The system allows you to trigger the creation of an asset master record for a new asset derived from a purchase order line item. You can also produce an asset with a production order or internal order, which integrates asset accounting with production or controlling, respectively.

- **Goods movements**
  Goods movements in various business processes usually impact financial accounting since they lead to a decrease or increase in inventory levels and the transfer of expenses to cost elements. The system creates accounting documents to record the financial accounting impact of goods movements. Some examples of goods movements in various business processes include the following:

  - **Goods receipts**
    Goods receipt postings in purchase-to-pay, plan-to-produce, plant maintenance, and project management (for nonstock materials assigned to operations and project activities) result in postings to several general ledger accounts such as GR/IR accounts; inventory accounts (e.g., finished goods); settlement accounts (e.g., manufacturing settlement account); and expense accounts, thus integrating financial accounting (general ledger accounting) with these business processes.

  - **Goods issues**
    Goods issue postings in order-to-cash, plant maintenance, and plan-to-produce (for material withdrawal) business processes result in postings to several general ledger accounts such as GR/IR accounts, inventory accounts, and expense accounts, thus integrating financial accounting (general ledger accounting) with these business processes.

  - **Transfer postings**
    If a transfer posting is relevant for valuation (e.g., material-to-material postings after processing a material), an accounting document is generated to update financial accounting records.

  - **Stock transfers**
    A stock transfer is evaluated at the valuation price of the material in the issuing (shipping) plant, and one accounting document is created to update financial accounting records. In a cross-company code stock transfer, two

accounting documents are created at the time of posting, one for each company code.

- **Settlements**
  The settlement of internal orders, production orders (acquisitions from internal production), maintenance orders, and projects (and WBS elements) can result in updates in asset or general ledger accounts, thus integrating asset accounting or general ledger accounting with these business processes.

- **Master data maintenance**
  In Customizing, you can set up the system to synchronously create/edit asset master records in asset accounting and equipment master records in plant maintenance, thus integrating asset accounting with plant maintenance.

- **Billing**
  In the billing process of the order-to-cash business process, the system creates an accounting document including a debit for a customer account and a credit to revenue account (general ledger account).

- **Payments**
  Making payments to vendors is a part of the purchase-to-pay business process. You can manually pay vendor invoices or use the payment program, which results in postings to vendor subledger accounts, accounts payable reconciliation accounts, and bank accounts. In the order-to-cash business process, you'll receive payments by posting to the vendor and several general ledger accounts, such as bank accounts.

- **Assessments and distributions**
  Both assessments and distributions (in controlling) result in allocations of costs booked to primary cost elements linked to general ledger accounting, thus integrating financial accounting with controlling.

2.5   Important Terminology

In this chapter, the following terminology we use is important to know for the exam:

- **Account group**
  An account group categorizes general ledger accounts into user-defined segments. When you create a general ledger account, you must choose an account group. The account group determines the number range and field status of general ledger accounts.

- **Accounts payable accounting**
  A key process of financial accounting concerned with accounting records for vendors.

- **Accounts receivable accounting**
  A key process of financial accounting concerned with accounting records for customers.

- **Asset accounting**
  A key process of financial accounting concerned with accounting records for fixed, tangible assets.
- **Asset class**
  To create an asset master record, you must choose a company code and an asset class. Each asset belongs to only one company code, and every asset in the system must be assigned to an asset class. An asset class provides account determination keys and determines the number ranges valid for general ledger accounts.
- **Asset explorer**
  The asset explorer is a reporting tool in the asset accounting module. You can display planned and posted depreciation by depreciation area and by fiscal year for each fixed asset. From the asset explorer, you can drill down into the details of an asset's financial transactions asset and branch the master data of an asset or cost object.
- **Asset history sheet**
  The asset history sheet is a reporting transaction in asset information systems. You can use the asset history sheet (Transaction ARO2) to create a comprehensive report for year-end closing. The asset history sheet includes all transactions/posting for a range of assets or asset classes.
- **Balance sheet**
  A financial statement including a comparison of assets and liabilities.
- **Balance sheet accounts**
  General ledger accounts recording postings from business transactions.
- **Bank ledger accounting**
  A key process of financial accounting concerned with accounting records for bank transactions.
- **Business area**
  A business area is organizational data representing a separate operational and responsibility area in the organization. You can use business areas in external segment reporting based on significant operation areas (e.g., product lines, branches) across company codes.
- **Business partner category**
  You must choose a business partner category when creating a business partner master record in the system. Three business partner categories exist: organization, person, and group.
- **Business partner grouping**
  Determines the internal and external number ranges valid for various kinds of business partners, such as customers and vendors.
- **Chart of accounts**
  A chart of accounts is an ordered list of all general ledger accounts used by one or more company codes.

- **Document splitting**
  A function of general ledger accounting that supports the requirement to create complete financial statements for several dimensions, including segments, profit centers, business areas, and custom-defined segments. If document splitting is active, you'll see the splitting of accounting document line items into segments in a general ledger view.
- **Financial statement version**
  The structure of financial statements and the general ledger accounts reported in the financial statements are defined in the form of a financial statement version. You must define financial statement versions in Customizing to structure and print out financial statements.
- **General ledger**
  A general ledger is a central record-keeping ledger used to sort, store, and summarize accounting data that flows from subledgers and financial transactions. A company's financial statements are generated from the summary totals calculated in general ledgers.
- **General ledger accounting**
  A key process of financial accounting concerning legal reporting.
- **Parallel accounting**
  In the system, you can use multiple ledgers (general ledgers) to perform parallel accounting, which is vital for multinational companies to meet different accounting principles and reporting standards. One of these ledgers must be designated the leading ledger and will be based on the accounting principles (e.g., IFRS) for the consolidated financial statements.
- **Profit and loss (P&L) or income statement**
  A financial statement including a comparison of revenues and expenditures.
- **Profit and loss (P&L) or income statement accounts**
  General ledger accounts record expenses or revenues from operating and non-operating expenses.
- **Profit center**
  Master data in financial accounting. You can use profit centers as a dimension for internal reporting purposes in the system.
- **Reconciliation accounts**
  General ledger accounts that connect subledger accounts to the general ledger. Reconciliation accounts are closed for direct posting, which guarantees real-time reconciliation between the general ledger and subledgers.
- **Segment**
  A segment represents a company's division for which you can create financial statements for legal reporting. A segment is organizational data in financial accounting. You can use a segment as a dimension for reporting purposes in the system.
- **Subledger account**
  Concerned with the individual accounting records of customers, vendors, or fixed assets.

2.6   Practice Questions

These practice questions will help you evaluate your understanding of the topics covered in this chapter. The questions shown are similar to those found on the certification examination. Although none of these questions will be found on the exam itself, they will allow you to review your knowledge of the subject. Select the correct answers and then check the completeness of your answers in the next section. Remember that you must select all correct answers on the exam and select only correct answers to receive credit for the question.

1. Which of the following are the key processes in financial accounting? (There are two correct answers.)

    ☐   **A.** Profit center accounting

    ☐   **B.** Asset accounting

    ☐   **C.** Cost element accounting

    ☐   **D.** General ledger accounting

2. Which of the following receives most of its data from individual accounts for suppliers?

    ☐   **A.** Accounts receivable

    ☐   **B.** Supplier expense account

    ☐   **C.** Accounts payable

    ☐   **D.** Profit center accounting

3. Which of the following are correct about financial accounting? (There are two correct answers.)

    ☐   **A.** Internally focused

    ☐   **B.** Externally focused

    ☐   **C.** Subject to a country's laws and other regulations

    ☐   **D.** Defined by company's management needs

4. Which of the following is *not* organizational data in financial accounting? (There are two correct answers.)

    ☐   **A.** Cost center

    ☐   **B.** General ledger account

    ☐   **C.** Business area

    ☐   **D.** Segment

5. Which of the following represents a division of a company and a dimension in financial statements?

    ☐   **A.** Business area

    ☐   **B.** Segment

    ☐   **C.** Company code

    ☐   **D.** Organizational unit

6. Which of the following are master data in financial accounting? (There are two correct answers.)

    ☐   **A.** General ledger account

    ☐   **B.** Cost center master record

    ☐   **C.** Leading ledger

    ☐   **D.** Asset account

7. Which of the following are subledger accounts? (There are two correct answers.)

    ☐   **A.** Accounts receivable reconciliation account

    ☐   **B.** Vendor account

    ☐   **C.** Contract accounts receivable

    ☐   **D.** Inventory-finished goods

8. Which of the following is *not* correct about the reconciliation accounts?

    ☐   **A.** They are closed for direct posting

    ☐   **B.** They connect subledger accounts to the general ledger

    ☐   **C.** They are subledger accounts

    ☐   **D.** They are general ledger accounts

9. Which of the following must be first selected to create a business partner master record?

    ☐   **A.** Business partner grouping

    ☐   **B.** Partner function

    ☐   **C.** Business partner role

    ☐   **D.** Business partner category

10. Which of the following business partner roles includes a reconciliation account number for the business partner? (There are two correct answers.)

☐ **A.** Business partner general role

☐ **B.** Financial accounting vendor role

☐ **C.** Customer role

☐ **D.** Financial accounting customer role

11. Which of the following are correct about organizational and master data in financial accounting? (There are three correct answers.)

☐ **A.** Segments are created at the client code level

☐ **B.** A business area can be activated for multiple company codes

☐ **C.** Only one business partner can be assigned to each reconciliation account

☐ **D.** Each company code must be assigned to the operational chart of accounts

☐ **E.** A company code can be assigned to only one chart of accounts

12. Which of the following are correct about the scope of general ledger accounting? (There are two correct answers.)

☐ **A.** Represents internal accounting

☐ **B.** Represents external accounting

☐ **C.** Includes all details of the business transactions with individual business partners

☐ **D.** Concerned with legal reporting

13. Which of the following is *not* correct about parallel accounting?

☐ **A.** There can be multiple general ledgers, but only one of them can be the leading ledger

☐ **B.** All company codes must be assigned to the leading ledger

☐ **C.** A currency must be assigned to a company code and ledger

☐ **D.** All parallel ledgers are assigned the same international accounting principles

14. Which of the following information can be found in the chart of accounts? (There are two correct answers.)

☐ **A.** A list of general ledger account balances

☐ **B.** Postings to general ledger accounts

☐ **C.** General ledger account numbers

☐ **D.** Type of general ledger account (P&L or balance sheet)

15. Which of the following are correct about the account group? (There are three correct answers.)

☐ **A.** It must be maintained in company code segment data of general ledger account

☐ **B.** A general ledger account can belong to several account groups

☐ **C.** It determines the field status of data field categories for general ledger accounts

☐ **D.** It determines the number range for the general ledger accounts

☐ **E.** Account groups are defined per chart of accounts

16. Which of the following can be found in the company code segment data of the general ledger account master record? (There are two correct answers.)

☐ **A.** Account group

☐ **B.** Account currency

☐ **C.** General ledger account type

☐ **D.** Interest data

17. Which of the following header-level data can help you to identify an accounting document? (There are two correct answers.)

☐ **A.** Fiscal year

☐ **B.** Document date

☐ **C.** Company code

☐ **D.** General ledger account number

18. Which of the following are correct about the posting key? (There are two correct answers.)

☐ **A.** You must enter the posting key for each line item during the general ledger document posting

☐ **B.** The posting key is valid for the entire accounting document

☐ **C.** Determines the type of posting (debit or credit)

☐ **D.** Determines the field status for each line item in the accounting document

19. For which dimensions document splitting enables preparation of financial statements (There are three correct answers.)

☐ **A.** Segment

☐ **B.** Profit center

☐ **C.** Work center

☐ **D.** Plant

☐ **E.** Business area

20. Which of the following provides a comparison of assets and liabilities?

☐ **A.** Income statement

☐ **B.** P&L statement

☐ **C.** Balance sheet

☐ **D.** Asset history sheet

21. What do you have to enter first to create an asset master record? (There are two correct answers.)

☐ **A.** Asset class

☐ **B.** Asset category

☐ **C.** Company code

☐ **D.** Account determination key

22. Which of the following are correct about the assets? (There are three correct answers.)

☐ **A.** An asset can be owned by several company codes

☐ **B.** Each asset must be assigned to an asset class

☐ **C.** Assets can only be acquired externally

☐ **D.** An asset master record in asset accounting can be created synchronously with an equipment master record in plant maintenance

☐ **E.** Assets are linked to multiple general ledger accounts through account determination key

23. Which of the following must be entered during the asset posting for external acquisition? (There are two correct answers.)

☐ **A.** Transaction type

☐ **B.** Purchase order number

☐ **C.** Vendor number

☐ **D.** Posting key

24. Which of the following are correct about a fixed asset's depreciation? (There are two correct answers.)

☐ **A.** For each fixed asset, the system can calculate only one type of depreciation

☐ **B.** Asset depreciation is automatically calculated and reflected in the balance sheet in real time

☐ **C.** You must execute a periodic depreciation posting run to transfer all depreciation to the asset master record

☐ **D.** Depreciation keys are used in the system for the calculation of planned depreciation

25. Which of the following can be done in the asset explorer? (There are two correct answers.)

☐ **A.** You can see planned and posted depreciation per fiscal year and per depreciation area

☐ **B.** You can list all financial transactions for a group or class of assets

☐ **C.** You can branch master data of asset and other cost objects

☐ **D.** You can change depreciation keys for an asset

26. Which of the following can be assigned to an asset in the asset master record? (There are three correct answers.)

☐ **A.** Maintenance work center

☐ **B.** Profit center

☐ **C.** Cost center

☐ **D.** Maintenance planning group

☐ **E.** Business area

27. Which of the following results in a posting to asset accounts? (There are two correct answers.)

☐ **A.** Goods receipts

☐ **B.** Settlements for an internal order

☐ **C.** Purchase requisitions for an asset

☐ **D.** Depreciation posting runs

2.7   Practice Question Answers and Explanations

1. Correct answers: **B and D**
    Financial accounting's key processes are general ledger accounting, accounts receivable accounting, accounts payable accounting, asset accounting, and bank ledger accounting. Profit center accounting and cost element accounting are key processes in management accounting and are concerned with the profits and costs of areas of responsibility.

2. Correct answer: **C**

   Accounts payable is concerned with individual accounting records for vendors (suppliers). Accounts receivable receives most of its data from postings to customer accounts in the order-to-cash business process. Profit center accounting is concerned with the profitability of areas of responsibilities (profit centers) and receives data from the cost objects to which profit centers are assigned.

3. Correct answers: **B and C**

   Financial accounting is externally focused and concerned with financial reporting defined by a country's laws and regulations. Financial reports and statements in financial accounting can also be used internally for management purposes. Management accounting is internally focused, and the company's management requirements determine the content of management accounting.

4. Correct answers: **A and B**

   A cost center is master data in controlling. A general ledger account is master data (not organizational data) in financial accounting. Client, company code, business area, and segment are organizational data in financial accounting.

5. Correct answer: **B**

   A segment represents a division of a company for which you can create financial statements for legal reporting. A segment is organizational data that you can use as a dimension for reporting purposes. Segment reporting is used to meet reporting requirements determined by several accounting principles such as IFRS and GAAP.

6. Correct answers: **A and D**

   General ledger accounts and subledger accounts (customer, vendor, asset) are master data in financial accounting. A cost center is master data in controlling. All company codes must be assigned to the leading ledger, and all general ledger accounts are summarized in the leading ledger. However, the leading ledger is not master data in financial accounting.

7. Correct answers: **B and C**

   All reconciliation accounts are general ledger accounts. An accounts receivable reconciliation account is a part of accounts receivable but not a subledger account. Subledger accounts are not general ledger accounts. Inventory accounts are general ledger accounts. Customer, vendor, asset, and contract accounts receivable accounts are subledger accounts in the system.

8. Correct answer: **C**

   Reconciliation accounts are general ledger accounts connecting subledger accounts to the general ledger. They are closed for direct posting, which guarantees real-time reconciliation between the subsidiary ledger and the general ledger.

9. Correct answer: **D**

   You must first select a business partner category to create a business partner master record. Then, you can create business partner roles (customer or vendor) based on your interactions with the business partner. A business partner grouping controls the internal and external numbering of business partner master records.

10. Correct answers: **B and D**

    Business partner general data is created at the client level and valid for the business partner's roles. A reconciliation account is accounting-relevant data that must be maintained at the company code level in the financial accounting customer or financial accounting vendor roles. A customer role includes data relevant to sales and distribution.

11. Correct answers: **A, B, and D**

    In Customizing, segments are created at the client level. Several business areas can be activated for a company code, and a business area can be activated for several company codes. Each company code must have an operating chart of accounts and based on accounting requirements, a company code can be assigned to up to two more charts of accounts (country-specific and group chart of accounts). Several customers (or vendors) are assigned to the same reconciliation account for customers (or vendors) in their master records.

12. Correct answers: **B and D**

    General ledger accounting is responsible for a full representation of external accounting. The details for business transactions with individual business partners are recorded in subledger accounts for business partners and summarized in general ledger accounts. General ledger accounts do not include details of individual transactions. General ledger accounting is mainly concerned with legal reporting to stakeholders and tax authorities.

13. Correct answer: **D**

    You can use multiple general ledgers in parallel to meet different reporting standards determined by the country's accounting principles. However, one of these ledgers must be the leading ledger. This ledger must be assigned all company codes. Parallel ledgers can use different accounting principles. The leading ledger and all assigned company codes are subject to consolidated accounting principles valid for all countries. You must set a currency for the management of a ledger assigned to a company code.

14. Correct answers: **C and D**

    A chart of accounts is an ordered list of general ledger accounts and includes general ledger account numbers, type of general ledger account, and account description. A chart of accounts does not include any transactional details from general ledger accounts, such as postings or balances.

15. Correct answers: **C, D, and E**

    Account groups can be maintained in the chart of accounts segment data of general ledger accounts. A general ledger account can be assigned to only one account group. The account group defines the number range for accounts and the field status. In Customizing, you can define account groups for charts of accounts.

16. Correct answers: **B and D**

    Account group and general ledger account types are maintained at the chart of accounts segment data of general ledger account master data. You can find the currency, interest data, account control, and account management data in the company code segment of the general ledger account master data.

17. Correct answers: **A and C**

    All documents in the system have document data in the header-level data. However, you can differentiate an accounting document by the fiscal year and company code at the header level. General ledger account numbers can be seen in the item-level data.

18. Correct answers: **C and D**

    The document type key and the posting key are two essential keys used in general ledger account document postings. The posting key determines the account type (general ledger account or subledger account) to which you're posting, the type of posting, and the field status of additional details required for line items. Unlike SAP ERP 6.0, in SAP S/4HANA, you do not need to enter the posting key in item-level data during a general ledger account document posting. The system automatically generates the posting key from the debit/credit indicator and the general ledger account number you entered. The generated posting keys are displayed in the line items of the resulting accounting document.

19. Correct answers: **A, B, and E**

    Document splitting is a function of general ledger accounting and supports requirements for the creation of complete financial statements for segments, profit centers, business areas, and custom-defined segments.

20. Correct answer: **C**

    A balance sheet is a financial statement that provides a comparison of the company's assets and liabilities. An income statement and a P&L statement are the same; they compare expenditures and revenues. The asset history sheet provides a detailed report of all financial transactions for the company's fixed assets but does not report on a company's liabilities.

21. Correct answers: **A and C**

    Each asset can belong to only one company code and must be assigned to an asset class, so you must enter a company code and an asset class when you create an asset master record. The account determination key is defined by the asset class and assigned to an asset master record when you select the asset class.

22. Correct answers: **B, D, and E**

    Each asset can belong to only one company code and must be assigned to an asset class. The account determination key is defined by asset class and connects the asset to multiple general ledger accounts. For a fixed asset (say equipment), asset master records in asset accounting and equipment master records in plant maintenance are created separately but synchronously (requires setup in Customizing).

23. Correct answers: **A and D**

    An external acquisition can be made without reference to a vendor and purchase order (nonintegrated asset acquisition). However, in all asset postings, you must enter a transaction type and a posting key.

24. Correct answers: **C and D**

    SAP S/4HANA supports the parallel valuation of assets by providing several depreciation areas. For a fixed asset, several depreciation values can be planned according to several depreciation areas. Depreciation values can be planned manually or automatically (by using depreciation keys). Planned (or calculated) depreciation values are not reflected in the asset master record or the balance sheet until the execution of the depreciation posting run.

25. Correct answers: **A and C**

    The asset explorer can display planned and posted depreciation values for a fixed asset by depreciation area and fiscal year. You can also branch master data and drill down into the details of the postings for a selected asset. You can list transactions for selected assets. To see all transactional details for a group of assets, you must use the asset history sheet. Depreciation keys for an asset can be changed by editing the asset master record (not in the asset explorer).

26. Correct answers: **B, C, and E**

    You can assign a profit center, cost center, or a business area to an asset in its master record. The maintenance work center and maintenance planning group are data that you can maintain in the equipment master record (for a fixed asset).

27. Correct answers: **B and D**

    Depreciation posting runs and settlements for internal orders can post to asset accounts. A purchase requisition does not trigger any accounting posting. goods receipts can result in updates to several general ledger accounts (inventory and expense) and cost centers, but they do not lead to postings to subledger accounts (asset, vendor, and customer).

2.8   Test Takeaway

In this chapter, you learned the key processes of financial accounting and the system application components supporting those key processes. General ledger accounting supports the legal reporting requirements of a company. Accounts receivable accounting, accounts payable accounting, and asset accounting are concerned with administering the individual accounting records of customers, vendors, and assets, respectively. General ledger accounts, subledger accounts, and profit centers are master data that support transactions in financial accounting. A company's financial-organizational structure is mapped into the system with the following organizational data: client, company code, segment, and business area. Company codes are assigned to the client, and segments are created at the client level.

Business areas are activated for company codes. The system supports parallel accounting by enabling the use of parallel ledgers to meet different accounting principles. One of these ledgers must be designated the leading ledger. Customer, vendor, and asset accounts are subledger accounts that are connected to the general ledger through reconciliation accounts. Reconciliation accounts are general ledger accounts closed for direct posting and guarantee the automatic reconciliation between subledgers and the general ledger. Cross-module data assignments and business transactions in other business processes integrate financial accounting with other system modules. Goods movements, settlements, depreciation postings, billing, payments, assessments, and distributions are examples of business transactions that affect financial accounting records. For cross-company code cost accounting, you can assign company codes to a controlling area, which is organizational data in management accounting. Company codes assigned to the same controlling area must use the same fiscal year variant and the same operating chart of accounts.

We've now covered financial accounting in SAP S/4HANA. The next chapter covers the key processes in management accounting and controlling that support management accounting processes in SAP S/4HANA.

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Dr. Murat Adivar is a professor of business analytics and an SAP-certified consultant at Fayetteville State University. He is the founder of the ERP Concentration Program at Broadwell College of Business and Economics, SAP Next-Gen Lab at Fayetteville State University, and the ERP and Advanced Analytics Center at Fayetteville State University. He currently teaches data analytics courses at the MBA program and trains students for the TS410 business process integration exam. Dr. Adivar has the C_TERP10, C_TS410_1610, C_TS410_1809, and C_TS410_1909 certifications.

Murat Adivar

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