Sign-off on Business Blue Print on

Financial Accounting

(GO LIVE on August 1st)

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mySAP ERP Implementation Project
ABCLtd.

(Project ABC)

Finance and Controlling
Business Blueprint

Document Control Version: 1.0			
Role	Name of Person	Signature	Date
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Purpose of this Document

The purpose of this document is to determine the business process requirements for the mySAP ERP Implementation Project of ABCLtd. and to provide the required functions in SAP.

Intended Audience

This document is intended for the usage of ABCLtd. Finance and Controlling team, ABC SAP consultants and employees of ABCLtd. involved with the Project.

Current distribution of this document

1	Steering Committee, Project ABC
2	Business Process Owner, FI/CO Module, ABCLtd.
3	Core Users, FI/CO Module, ABCLtd.

INTRODUCTION

ABCLimited (ABC) is in the business of XXXXXXXX and was founded 1998, having consistently achieved high-growth rate and expanded globally. ABC has offices in USA, Netherlands, Dubai, Qatar, Singapore and India. Headquartered in Hyderabad-India. ABC has set the standard for quality services while evolving to meet the needs of emerging markets. ABC is currently one of the largest exporter in the country.

ABC is currently running xxxxxx Accounting and limited other functions using Tally systems. ABC has decided to implement 'mySAP ERP' **2005 (ECC 6.0)** to meet ABC's future requirements, to enable its business processes and to integrate all the functional areas. The Project Mission Statement is "Keeping focus always on internal and external customers, we will implement "SIMPLE & BEST" practices to enhance efficiency and effectiveness in our business processes through SAP".

This document of two sections the first section presents the business processes of Finance and Controlling (FICO) module and second section presents Question and Answer database (Q&Adb) as per Accelerated SAP (ASAP) methodology.

This Blueprint has been developed by documenting all input gathered from the business process owners/core users by scheduling meetings and workshops. Accelerated SAP (ASAP) Question and Answer Database (Q&A db) has been used extensively for this purpose. This document shows the business requirements in detail, and serves as the basis for organization, configuration and development activities.

Vision

1. To maintain the books of account as per the accounting standards and policies of the group by proper record of transactions and to generate the financial statements, business and operation information reports as are required by the various stake holders.

2. To ensure security of financial data.

3. To close the books of account by 2nd business day of every month and submit the individual financial statements 5th business day of every month

Stakeholders

Following are the major Stakeholders and the departments that shows interest:

STAKEHOLDER	INTEREST
End user department	Accurate recording of all transactions that have financial implications
Finance Department	Accounting of all transactions that have financial implications
Management	Efficient timely reporting for financial and controlling analyses
Auditors	Internal controls are in compliance Compliance of accounting standards

ABC Books of Accounts

ABC has to maintain the books of accounts as per Indian GAAP as such requires one set of books of accounts, as per Indian GAAP for the Financial year i.e. April to March to meet the Income tax requirements.
Formats of MIS, reporting of financial statements and the reconciliation statements will be provided by ABC.

Organization Structure of Finance Department

ABC Organization Structure

The organization structure of ABC which is depicted in Figure 2.1 is the current organization structure and is likely to change in future.

```
          ┌─────────────────────┐
          │  Managing Director  │
          └──────────┬──────────┘
                     │
          ┌──────────┴──────────┐
          │   Chief Finance     │
          │     Officer         │
          └──────────┬──────────┘
                     │
          ┌──────────┴──────────┐
          │  Vice President     │
          │     Finance         │
          └──────────┬──────────┘
             ┌───────┴────────┐
   ┌─────────┴────────┐  ┌────┴─────────────┐
   │   Sr. Manager    │  │  Asst. Manager   │
   │     Finance      │  │     Finance      │
   └─────────┬────────┘  └────────┬─────────┘
   ┌─────────┴────────┐  ┌────────┴─────────┐
   │    Executive     │  │    Executive     │
   │     Finance      │  │     Finance      │
   └─────────┬────────┘  └────────┬─────────┘
   ┌─────────┴────────┐  ┌────────┴─────────┐
   │   GL a/c, ,A.P,  │  │  Pay Roles, A.R. │
   │    postings,     │  │   accounting     │
   └──────────────────┘  └──────────────────┘
```
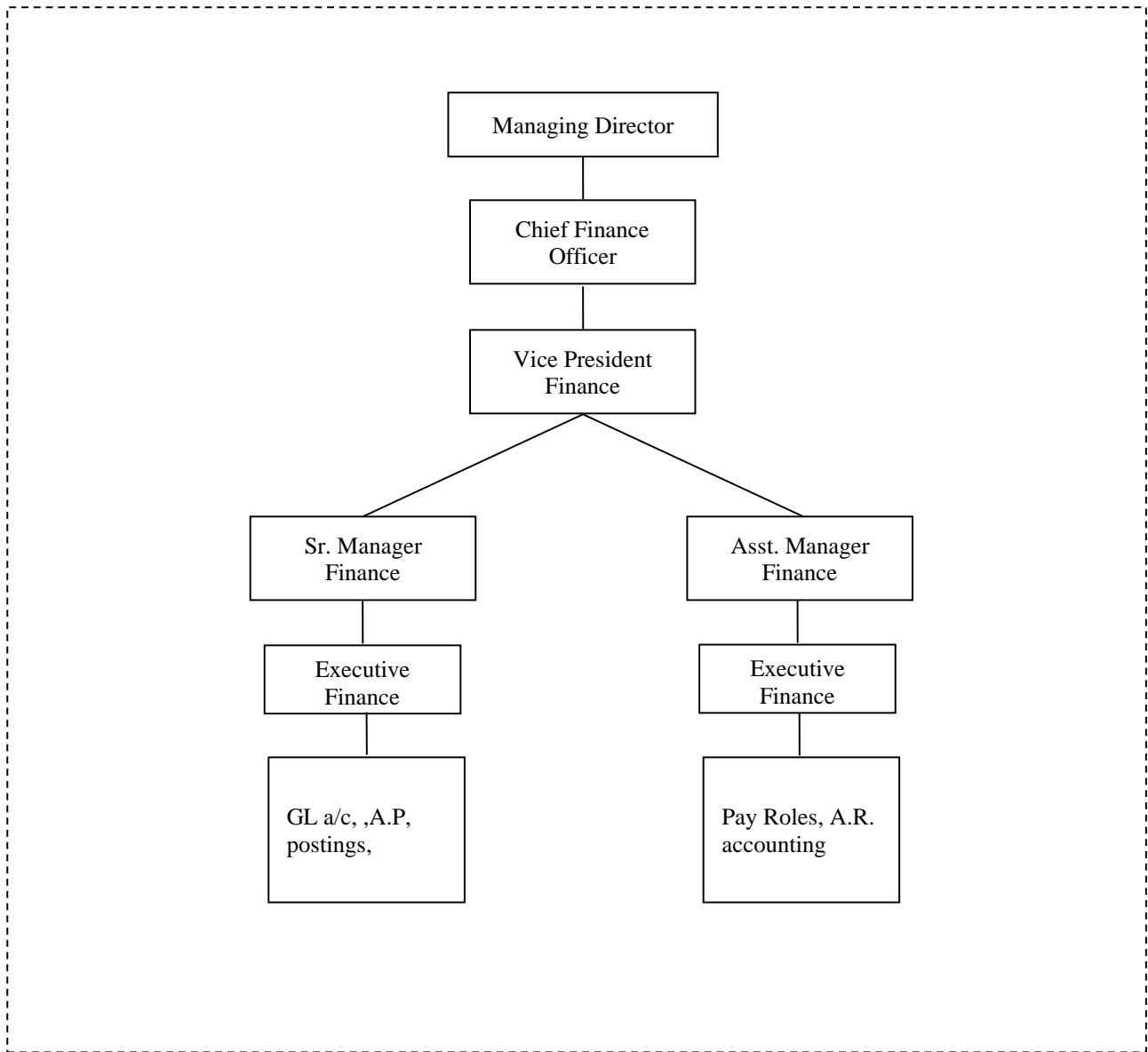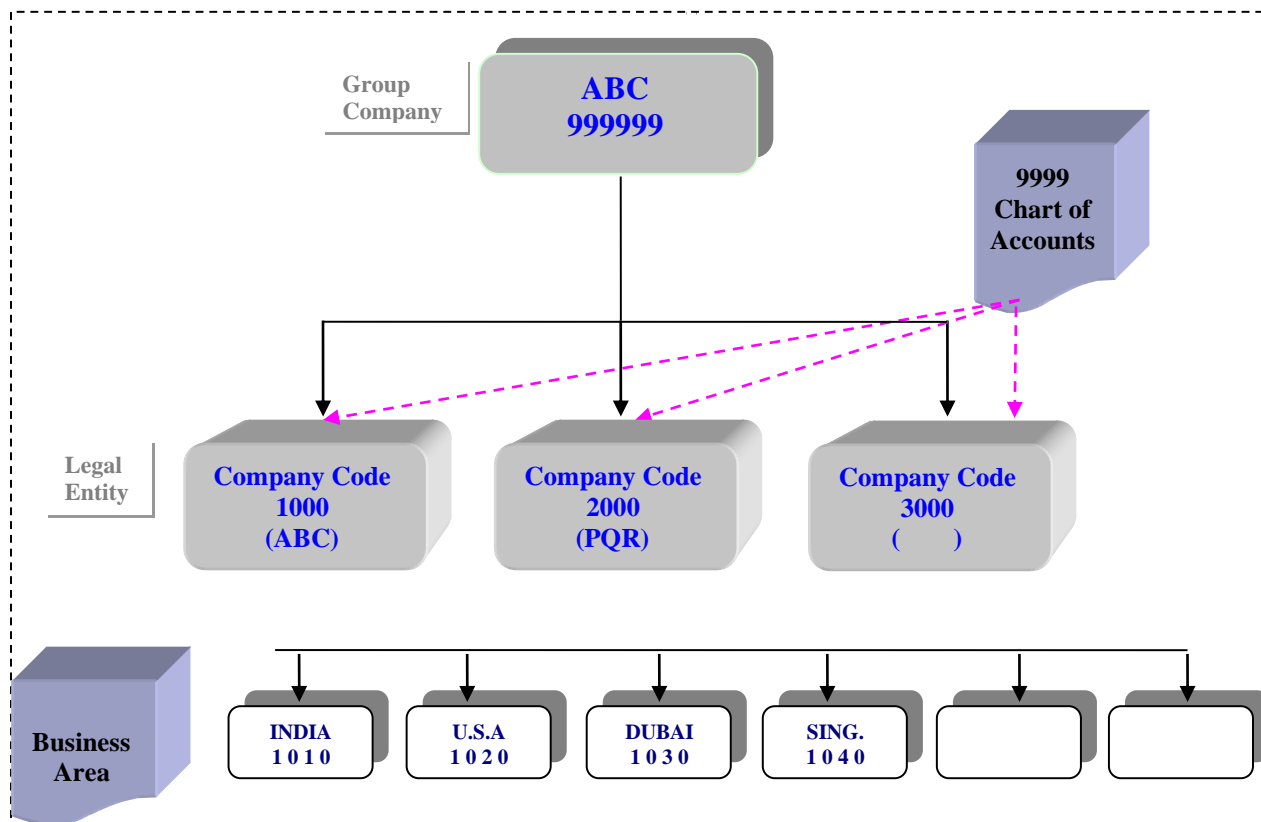
Organization structure of ABC finance department

ABC Organization Structure

The purpose of this structure is to map the organizational entities of ABC in to SAP for recording the financial accounting transactions. The following are defined as Company Codes.

ABC Organization Structure

Business Process Architecture

Following master data and business process requirements are identified for ABC, using the Question & Answer database (Q&A db). The identified business requirements can be met with the standard functionalities and customized development of SAP.

1. Create general ledger master
2. Create vendor master
3. Create customer master
4. Create asset master
5. Create cost element
6. Create cost center master
7. Profit Center master
8. Create internal order master
9. Park and post general ledger document
10. Park and post vendor invoice
11. Vendor down payment– payments through use of RTGS, E-Net, Cheques, Pay-outs.
12. Make vendor payment
13. Make vendor payment (Foreign payments) – including statutory payments (valuation of the stock shall be based on the estimated statutory and other costs associated with such procurements)
14. TDS Procedure

15. Sales Tax payment procedure
16. Service tax payment procedure
17. Park and post customer invoice
18. Customers incoming payment process (Regular/Advance/adhoc basis)
19. Procurement of Assets (small assets purchase without P.O)
20. Settlement of Assets under construction
21. Rentals on Leased Assets
22. Asset Retirement
23. Asset Transfer
24. Asset Impairment
25. Bank Reconciliation process
26. Customers incoming payment process (Direct deposit into bank)
27. Check dishonor process
28. Cash Journal (Petty Cash)
29. Bills of Exchange
30. Employee Imprest accounts
31. Gas Gain (Transit & Operational)
32. Take or Pay(Discount)
33. FX bookings and Hedging products for currency and commodity and treatment of Hedging Gain/Loss
34. Sales Tax (Purchase Tax credit)
35. Credit notes – with ED&ST, With Sales tax, with out duties or taxes
36. Debit/Credit notes
37. Inter Company Transaction- WASL & ABC
38. Fixed Deposits with Banks (Treasury operations – Making/Breaking/Maturity of Fixed Deposits/Investments)
39. Salary payments by Bank transfers
40. Material Valuation
41. Customer Deposits

Planning

We have studied the planning requirements of the company and in our opinion, the budgeting requirement spelt out by the company can be handled by way of planning in SAP. The planning report that the company presently generates is at the profit center/profit center group level. Revenue and expenditure planning can be handled at cost center/profit center level and we can meet the requirements by way of planning at the profit center level. Planning for balance sheet items will be done for those items supported by Profit center accounting.

Reports

#	Name of the report	Purpose of the report	Intended for
General Ledger			
1	Actual - Actual comparison for year	• Drill down report	Vice President Finance Manager Finance

#	Name of the report	Purpose of the report	Intended for
		• Comparison of current year Balance Sheet and profit and loss account with previous year • Report available in company code currency and group currency, if defined	Senior Accountant
2	Balance Sheet and Profit and Loss Account	• Balance Sheet and profit and loss account with previous year figures • Report available in company code currency and group currency, if defined	Vice President Finance Manager Finance Senior Accountant
3	Quarterly Actual/Actual comparison	• Drill down report • Comparison of current quarter Balance Sheet and profit and loss account with previous year • Report available in company code currency and group currency, if defined	Vice President Finance Manager Finance Senior Accountant
4	Cash flow	Cash flow for the year and comparison with previous year	Vice President Finance Manager Finance Senior Accountant
5	G/L Account balances	General Ledger Account balances in local currency and group currency	Vice President Finance Manager Finance Senior Accountant
6	Totals and Balances	General Ledger balances with different sub totaling options	Vice President Finance Manager Finance Senior Accountant
7	Structured Account balances	General Ledger account balances in financial statement version form	Vice President Finance Manager Finance Senior Accountant
8	Statement of retained earning	Changes in shareholders equity	Vice President Finance Manager Finance
Accounts Payable			
9	Vendor Information System	Drilldown report Analysis of vendors by due date, currency and overdue items in group currency, if defined	Vice President Finance Manager Finance Senior Accountant
10	Vendor balances in local currency	• Vendor account balances are displayed in the local currency	Vice President Finance Manager Finance Senior Accountant
11	Vendor items due date analysis for open items	• Drill down report	Vice President Finance Manager Finance

#	Name of the report	Purpose of the report	Intended for
		• Vendors due dates are split in terms of periods, for example, 0-30,31-60,61-90 and are displayed in local currency	Senior Accountant
12	List of vendor line items	Line items of the vendor are displayed and balance per currency are also displayed	Vice President Finance Manager Finance Senior Accountant
13	Vendor due date forecast	Due date forecast for the vendors for two periods is displayed	Vice President Finance Manager Finance Senior Accountant
Accounts Receivable			
14	Customer Information System	• Drilldown report • Analysis of Customers by due date, currency and overdue items in group currency, if defined	Vice President Finance Manager Finance Senior Accountant
15	Customer balances in local currency	Customer account balances are displayed in the local currency	Vice President Finance Manager Finance Senior Accountant
16	Customer items due date analysis for open items	• Drill down report • Customers due dates are split in terms of periods, for example, 0-30,31-60,61-90 and are displayed in local currency	Vice President Finance Manager Finance Senior Accountant
17	List of Customer line items	Line items of the Customer are displayed and balance per currency are also displayed	Vice President Finance Manager Finance Senior Accountant
18	Customer due date forecast	Due date forecast for the Customers for two periods is displayed	Vice President Finance Manager Finance Senior Accountant
Asset Accounting			
19	Asset balances	• The balances of the asset for a given period are reported • The balances can be obtained on various parameters like asset number, sub number, cost center etc.,	Vice President Finance Manager Finance Senior Accountant
20	Inventory Lists	List of assets as per the inventory list are displayed	Vice President Finance Manager Finance Senior Accountant
21	Depreciation current year	Depreciation for the current year is displayed	Vice President Finance Manager Finance Senior Accountant
22	Simulation of depreciation	Depreciation simulation for future years is displayed	Vice President Finance Manager Finance Senior Accountant
Cost Center Accounting			
23	Cost centers: Actual	The planned figures and actual	Vice President Finance

#	Name of the report	Purpose of the report	Intended for
	/Plan/Variance	figures are displayed for all the cost centers or for a given cost center /cost center group	Manager Finance Senior Accountant
24	Cost centers monthly/Quarterly / half yearly /yearly comparison	• Actual figures for the four quarters are displayed • This report can be obtained in different currency as well, if required	Vice President Finance Manager Finance Senior Accountant
25	Cost center actual line items	For a given cost center range or group the line items are displayed	Vice President Finance Manager Finance Senior Accountant
Internal Orders			
26	Orders: Actual /Plan/Variance	The planned figures and actual figures are displayed for all the orders or for a given order /order group	Vice President Finance Manager Finance Senior Accountant
27	Orders Quarterly comparison	Actual figures for the four quarters are displayed This report can be obtained in different currency as well, if required	Vice President Finance Manager Finance Senior Accountant
28	Order actual line items	For a given order range or group the line items are displayed	Vice President Finance Manager Finance Senior Accountant

Business process mapping in mySAP 6.0:

The business processes described above are proposed to be mapped in SAP to give a better value addition to the company by way better functionality, thereby reducing time leads in various chore business processes. The proposed SAP configuration will give the company a better M.I.S. which will ease the company from wasting time in various manual calculations which hitherto the company is used to, thereby the company is able to take a quick response to various issues and quick decision making. The proposed configuration of various business processes of the company are described in the foregoing sections of this document.

Company:

A company is an organizational unit in Accounting which represents a business organization according to the requirements of commercial law in a particular country.

Consolidation functions in financial accounting are based on companies. A company can comprise one or more company codes.

The Proposed Group Company for ABC is:	**"999999"**

Company Code:

Company Code is the smallest organizational unit for which a complete self-contained set of accounts can be drawn up for purposes of external reporting. This involves recording all relevant transactions and generating all supporting documents for financial statements such as balance sheets and profit and loss statements. A company code can, for example, be a company or subsidiary.

The Proposed Company Code for M/s ABCLtd. India is:	**"1000"**

Chart of Accounts:

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

For each G/L account, the chart of accounts contains the account number, the account name, and technical information.

The proposed Chart of Accounts for the Company Code 1000 (ABCLtd.) is:	**"9999"**

Business Area:

A unit in an enterprise that groups product and market combinations as homogeneously as possible for the purpose of developing unified business policy.

An organizational unit of financial accounting that represents a separate area of operations or responsibilities within an organization and to which value changes recorded in Financial Accounting can be allocated.

we can create financial statements for business areas, and we can use these statements for various internal reporting purposes.

As ABC is running its business in 4 major geographical areas, the proposed Business areas are:

S.No.	Name	Business Area
1	Bangalore (India)	1010
2	Pitts Burgh (USA)	1020
3	Dubai	1030
4	Singapore	1040

Account Groups:

In order to organize and manage a large number of G/L accounts in a better way, they are arranged in Account Groups. The accounts of an account group normally have similar business function, for exp. We could have a account group for Cash Accounts, one for Expense Accounts, one for Revenue Accounts, and one for Balance Sheet Accounts etc.

Further we can control the numbering and restrict the creation of the GL codes within the specified number range.

As per the initial study of ABC business process we tend to create Account Groups relevant to the organization present practices which are as below:

Account Groups	Description	No. Ranges From	No. Ranges To
SHFD	Share Holders Funds	01000001	01100000
RESV	Reserves & Surplus	01100001	01200000
SCLO	Secured Loans	01200001	01300000
CLPR	Current Liabilities & Provisions	01300001	01400000
FAST	Fixed Assets	02000001	02100000
INVT	Investments	02100001	02200000
CALA	Current Assets, Loans & Advances	02200001	02300000
MISC	Miscellaneous Expenditure to the extent not w/o	02300001	02400000
INCM	Incomes	03000001	03100000
DEXP	Direct Expenses	04000001	04100000
IDUR	Increase/Decrease in Unbilled Revenue	04100001	04200000
COMS	Cost of Material sold	04200001	04300000
ADMN	Administration, General & Other Expenses	04300001	04400000
FINE	Financial Expenses	04400001	04500000
DEPN	Depreciation	04500001	04600000
MISC	Miscellaneous Expenditure w/o	04600001	04700000

Retained Earnings Account:

To carry forward the year end balances of the P&L account, we define Retained Earnings Account, we need to specify the retained earnings account, to which profits or losses are transferred. We can define one or more P&L statement account types per chart of accounts and assign them to retained earnings account.

There is a special program designed to transfer these amounts to this account. In order for this program to be able to carry forward the profit or loss, we have to enter the number of this retained earnings account in the system.

Each P&L account is assigned to a retained earnings account via a key. we have to enter this key in the P&L statement account type field found in the chart of accounts area of each P&L account.

Retained Earnings Accounts proposed for ABC in "9999" Chart of Accounts are:			
SL. No.	**Account Name**	**Key**	**G/L Account No.**
1	P&L Account.	"X"	01100001
2	P&L Appropriation Account.	"Y"	01100002

Fiscal Year:

The fiscal year variant contains the number of posting periods in the fiscal year and the number of special periods. We can define a maximum of 16 posting periods for each fiscal year in the Controlling component (CO).

A fiscal year is divided into **posting periods**. Each posting period is defined by a start and a finish date. Before we can post documents, we must define posting periods, which in turn define the fiscal year.

In addition to the posting periods, we can also define **special periods** for year-end closing.

In case the financial accounting year is April to March we can use the standard fiscal year variant **V3** in SAP.

As per the Indian Income Tax Act, the legal reporting fiscal year for any companies in India is April to March and being ABC located in India it is following Financial Accounting Year as "April to March", which is consisting of 12 normal periods and 4 special periods	
ABC Fiscal Year Variant is:	**"V3" (April to March)**

Posting Period Variant:

A separate variant for posting periods is defined for every company code. The name of this variant is identical to the company code name. Every company code is allocated to this variant with the same name.

Proposed Posting Period Variant for ABC which is identical to the Company Code is:	**"1000"**

Open and Close Posting Periods:

In this activity, we can specify which periods are open for posting for each variant. Two intervals are available for doing this (period 1 and period 2). In each interval, specify a period lower limit, a period upper limit, and the fiscal year.

we close a period by selecting the period specifications so that the period to be closed does not fall within them.

we can also assign authorization groups for permitted posting periods. This means that in month-end or year-end closing for example, we can open some posting periods for specific users only.

	Posting Periods time intervals for various account types are created for variant 1000.											
Var.	**Acct. type.**	**From Acct.**	**To Acct.**	**From Per 1**	**Year**	**To Period.**	**Year**	**From Per 2**	**Year**	**To Period**	**Year**	**Au Gr.**
1000	+			1	2007	12	2010	13	2007	16	2010	
1000	A		zzzzzz	1	2007	12	2007	13	2007	16	2007	
1000	D		zzzzzz	1	2007	12	2007	13	2007	16	2007	
1000	K		zzzzzz	1	2007	12	2007	13	2007	16	2007	
1000	M		zzzzzz	1	2007	12	2007	13	2007	16	2007	
1000	S		zzzzzz	1	2007	12	207	13	2007	16	2007	

The Account Types are	
+	**All Types**
A	**Assets**
D	**Debtors**
K	**Creditors**
M	**Material**
S	**GL**

Document Number Ranges:

A number range must be assigned to each document type in the SAP System. Via the document types, we distinguish the postings according to the different business transactions, for example customer payment, vendor credit memo, and so on. To store documents separately according to document types, we must assign a separate number range to each document type, for example to invoices or to credit memos.

The number intervals must not overlap. If we use year-dependent number ranges, we can specify the same intervals with the same key several times for different 2 fiscal years.

ABC follows Document No. Ranges on year-dependent basis thus, the suggested Document Number Ranges on year-dependent basis are high-lighted below.

Doc. Type	No	Year	From No.	To No.	Ext	Description
SA	01	2007	00000001	20000000		GL Accounting Document
EX	02	2007	20000001	30000000		External number
AF	03	2007	30000001	40000000	x	Depreciation Posting
UE	04	2007	40000001	50000000	x	Data transfer
ZS	05	2007	50000001	60000000		Payment by check
SB	12	2007	12000001	13000000		G/L account posting
SK	13	2007	13000001	14000000		Cash document
DZ	14	2007	14000001	15000000		Customer payment
KZ	15	2007	15000001	16000000		Vendor payment
DA, DG	16	2007	16000001	17000000		Customer document
KA, KG	17	2007	17000001	18000000		Vendor document
DR	18	2007	18000001	19000000		Customer invoice
KR	19	2007	19000001	20000000		Vendor invoice
ZP, ZR, ZV	20	2007	20000001	21000000		Bank reconciliation
ML	47	2007	47000001	48000000		ML settlement
PR, KP	48	2007	48000001	49000000		Price change
WA, WI, WL	49	2007	49000001	50000000		Goods issue
WE, WN	50	2007	50000001	51000000		Goods receipt
RA, RE, RN	51	2007	51000001	52000000		Invoice – gross / Net
CJ	80	2007	80000001	90000000		Cash Journal
RV	00	2007	90000001	91000000	x	Billing doc.transfer
Recurring Doc.	X1	2007	91000001	92000000		Recurring Doc.
Sample Doc.	X2	2007	92000001	93000000		Sample Doc.

Field Status Variant:

Field status groups are independent of company code, attaching instead to the field status variant. A separate variant exists in each company code for field status groups in the standard system. The name of the variant is identical to the company code.

We can also define and process field status groups. We can define a field status group in the company code specific area of each G/L account. The field status group determines which fields are ready for input, which are required entry fields, and which are hidden during document entry.

Besides the field status group in the account master record, your **posting key specifications** also effect posting. For each posting key, we can decide what status the fields should have when posting with a key. But because there are only two posting keys for posting to G/L accounts in the standard system, we should use the field status groups from accounts in the master record for your screen layouts. The field status definition for posting keys 40 (debit posting to G/L accounts) and 50 (credit posting to G/L accounts) have optional status for each field in the standard system. Do not change this.

The Field Status Variant is to be created for ABC, by copping from 0001 as field status groups are already defined for this variant.	**"1000"**

Tolerance Groups for G/L Accounts:

For G/L account clearing, tolerance groups define the limits within which differences are accepted and automatically posted to predefined accounts. The groups defined here can be assigned in the general ledger account master record.

Company Code	**Tolerances Group**	**Debit Limit**	**Credit Limit**	**Per D**	**Per C**
1000	---	100	100	--	--

Tolerance Groups for Employees:

This activity enables us to define different amount limits for our employees. We use these limits to determine:

1. The maximum amount for which an employee is permitted to post a document.

2   The maximum line item amount an employee is permitted to enter in a customer, vendor or general ledger account.

3.   The percentage amount an employee can enter in a line item.

- The maximum acceptable payment difference.

Payment differences within certain tolerance groups are posted automatically. The system either adjusts the discount or posts the difference to a separate expense or revenue account.

We can also differentiate according to company codes. Since the same limits usually apply for a group of employees, enter the limits for employee groups. We then define the amount limits and tolerances per employee group and company code.

As ABC requires differentiating the authorization's with in its employees, we intend to create 3 tolerance groups.			
S.No.	**Tolerance Groups**	**Description**	**Employee Groups**
1	Entry Level (PIS1)	Only Parking (Amount No Limit)	XXXX
2	Supervisory (PIS2)	All Postings (Up to XXXX /-)	XXXX
3	Top Management (PIS3)	Full Authorization (Amount No Limit)	XXXX

Exchange Rates:

Exchange rates are required to:

- Translate foreign currency amounts when posting or clearing or to check an exchange rate entered manually

- Determine the gain and loss from exchange rate differences

- Evaluate open items in foreign currency and the foreign currency balance sheet accounts

The exchange rates are defined by period ("valid from").The system uses the type **M** exchange rates for foreign currency translation when posting and clearing documents. The exchange rates apply to all company codes.

As ABC is having business across the globe, its payments / receipts are of different currencies, we need to maintain currency translation for different currencies keeping INR (Indian Rupees) as base currency.	
We need to maintain Exchange Rates & its translations ("S" Selling,"B" Buying & "M" Average) for the following currencies:	

S.No.	Description
4.	USD (United States Dollar)
5.	EUR (European Euro)
6.	GBP (British Pound)
7.	AED (United Arab Emirates Dirham)
8.	SGD (Singapore Dollar)

Maximum Exchange Rate Difference:

In this activity we define the numbers of the accounts to which the organization want the system to automatically post realized exchange rate differences when clearing open items. We need to specify how much the exchange rate entered manually in the document header may differ in terms of percent from the one stored in the system.

While posting such document if any deviation occurs and it exceeds the percentage rate specified then a warning appears.

In clearing open items, the system posts any realized gains or losses (realized exchange rate differences) to the concerned GL Accounts.

We intend to control the exchange rate difference to the extent of 10% deviation from the rate entered manually in the document header.	

Description	GL No.
Exchange Rate Gain	03001801
Exchange Rate Loss	03001801

Additional Local Currency:

We can define additional currencies per company code which we would like to manage parallel to the local currency. We can have 2 more currencies for a company code in addition to the Local Currency (INR).

ABC requires 2 additional currencies which are:	
42.	USD
43.	EUR

GL Accounts:

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

The GL code has two segments:-
6. The Chart of Accounts Segment – The Chart of Account segment is at client level. Any company code wishing to use the GL code can extend it and create a company code view.
7. The Company Code Segment – A company intending to use the GL from chart of accounts has to create the company code view so that it can post to the GL code.

ABC requires GL Accounts to be Created Centrally, which enables us to create both the chart of accounts view as well as the company code view in one step. The GL's are here with attached in the Annex 1.

Document Reversal:

Using the Reverse function, we can reverse local and global documents that have been posted to the FI-SL System. we can only reverse FI-SL documents if all updated ledgers have line items.

Reversal may be a normal reversal or a negative reversal; in both the cases the system creates a reversal document.

In case of Normal Reversal the system posts the transaction on the opposite side of the transaction & can be posted or reversed on a later date.

Negative posting option decreases the transaction figures in the account posted to, ie. The system updates on the same side with negative symbol, & can be posted or reversed on the same date.

ABC requires Negative Posting option.

Account Balance Interest Calculation (GL):

We can calculate interest on the balance of those of the GL Accounts which are managed with open

item display by using the balance interest calculation function in the FI system. This function can be used, for example, to double-check the interest calculated on your accounts by the bank.

When we calculate interest on G/L accounts, a graduated list is produced. We can also have the balance interest calculation run logged by the system. The system will automatically calculate the interest and post to the respective GL accounts, if required.

In ABC, the interest calculation on GL accounts will be for memorandum purposes only i.e. a report will be generated giving the calculation of the interest but the same will not be posted using the interest calculation program. Interest will be posted at the time of bank reconciliation and this report will be used to cross-verify the interest charged by the bank.

Interest Calculation Types

In this activity, we create our interest indicators and specify that they are to be used for account balance interest calculation.

The Proposed Interest Indicator are:				
Int Ind	**Name**	**Int cal. Type**	**Frequency**	**Calender Type**
B1	Balance Interest	S(std SAP)	Monthly	"G" (28,..,31/365)

The Proposed Interest Rates, Terms & **Values to be given by ABC**			
Ref	**Description**	**Effect From**	**Rate**
xxx	xxx	01-04-2007	xxx
xxx	xxx	01-04-2007	xxx

Financial Statement Version (FSV):

In this activity we define the versions which we need to create a balance sheet and profit and loss statement. we can define versions for a specific chart of accounts, for a group chart of accounts, or without any specific assignment. We then determine the financial statement items for our version.

We can create number of financial statement versions for our chart of accounts, one for local reporting, one for parent reporting. In each version we can group the GL codes differently.

We assign groups of accounts to the items at the lowest levels of the hierarchy. We can select the criteria that determine which items the accounts are displayed in. For example, accounts or groups of accounts can be assigned to particular items based on their balance.

We intend to create one Financial Statement Version for ABC to suffice all its requirements, which are here with attached in the Annex 2.

Accounts Payable:

The Accounts Payable application component records and administers accounting data for all vendors. It is integrated with FI - GL module. The system automatically makes postings in response to the operative transactions.

Postings made in Accounts Payable are simultaneously recorded in the General Ledger where different G/L accounts are updated based on the transaction involved (payables and down payments, for example). The system contains due date forecasts and other standard reports that we can use to help monitor open items.

Balance confirmations, account statements, and other forms of reports will be configured to suit the various requirements in business correspondence with vendors. There are balance lists, journals, balance audit trails and other internal evaluations available for documenting transactions in Accounts Payable.

Vendor Account Groups:

When we create a master record for a business partner, we must enter an account group. The account group determines, Which screens and fields are necessary for entering master data, Whether we can or must make an entry in these fields, how master record numbers are assigned (externally by us or internally by the system) and the number range from which they are assigned, which partner functions are valid, whether the business partner is a one-time customer or one-time vendor.

Additionally, for vendor master records only, the account group determines:

● Whether default purchasing data in the vendor master is to be transferred to article master records and purchasing information records

● whether there are any other data retention levels below the purchasing organization level (for example, site or vendor sub-range level) at which data can be retained in the vendor master.

Reconciliation Accounts:

We must specify / assign a reconciliation account in the master record so that all postings made to a subsidiary ledger are also posted to the general ledger. When we post items to a subsidiary ledger, the SAP system automatically posts the same data to the general ledger at the same time. Each subsidiary ledger has one or more reconciliation accounts in the general ledger. These reconciliation accounts ensure that the balance of G/L accounts is always zero. This means that we can draw up financial statements at any time without having to transfer totals from the sub-ledgers to the general ledger.

As per the initial study of ABC business process we tend to create Vendor Account Groups relevant to the organization present practice which are as below:

A/c Group	Description	From No.	To No.	Recon Account.	GL No.
STAF	Staffing Services	010001	020000	Sundry Creditors – Staffing	01300601
CRCG	Capital Goods Suppliers	020001	030000	Creditors for Capital Goods	01300801
CRPR	Creditors for Purchases	030001	040000	Creditors for Purchases	01301001
CRSI	Creditors Imports	040001	050000	Sundry Creditors - Imports	01301101
GENC	General Contractors	050001	060000	Creditors for Expenses	01300901
PROC	Prof. Contractors	060001	070000	Creditors for Expenses	01300901
ADTC	Advt. Contractors	070001	080000	Creditors for Expenses	01300901
RENV	Rental Vendors	080001	090000	Creditors for Expenses	01300901
OVSC	OVS. Contractors	090001	100000	Creditors for Expenses	01300901
COMV	Commission Vendors	100001	200000	Creditors for Expenses	01300901
UTIL	Utility Vendors	200001	300000	Creditors for Expenses	01300901
HWSW	Hard Ware & Soft Ware Maint. Vendors	300001	400000	Creditors for Expenses	01300901
JOBP	Job Portals	400001	500000	Creditors for Expenses	01300901
OTHV	Other Vendors	500001	600000	Creditors for Expenses	01300901
SADV	Staff Advances	600001	700000	Staff Advances	01301201
TADV	Travel Advances	700001	800000	Travel Advances	01301301
OADV	Other Advances	800001	900000	Other Advances	01301401

Vendor Document Number Ranges:

A number range must be assigned to each document type in the SAP System. Via the document types, we distinguish the postings according to the different business transactions, for example customer payment, vendor credit memo, and so on. To store documents separately according to document types, we must assign a separate number range to each document type, for example to invoices or to credit memos.

The number intervals must not overlap. If we use year-dependent number ranges, we can specify the same intervals with the same key several times for different 2 fiscal years.

ABC follows Document No. Ranges on year-dependent basis thus, the suggested Document Number Ranges on year-dependent basis are as below:

Doc. Type	No	Year	From No.	To No.	Ext	Description
KZ	15	2007	15000001	16000000		Vendor payment
KA, KG	17	2007	17000001	18000000		Vendor document
KR	19	2007	19000001	20000000		Vendor invoice

Vendor Tolerances:

Tolerances are used for dealing with differences in payment and residual items which can occur

during payment settlement. Specify the tolerances under one or more tolerance groups. Allocate a tolerance group to each vendor via the master record.

The proposed vendor tolerances are:

Tolerance Group	Description	Amount	Adj. Discount by
	ABC : Vendor Tolerances Group	100	100

Vendor Payment Terms:

The terms of payment key can determine the following:

6 The valid cash discount rate for an individual payment with a maximum of 3 payment terms (first cash discount period, second cash discount period and due date for net payment) and also a baseline date for the payment, or

- The terms of payment for installment payments.

If we maintain a key for the terms of payment in the vendor master record, the system automatically defaults this key whenever we enter an item for this vendor.

Payment terms key	Description	Discount
0001 (Standard)	Immediately Due	-
ZPV1	15 days without discount	-
ZPV2	30 days without discount	-

Vendor Down Payment:

ABC has to pay, during their course of transactions, advance payments to the vendors. Advance payments are known as down payments in SAP. Down payment request can be created & viewed by the accounts payable person. After checking the purchase order terms, the down payment is made by the accounts payable person.

The system posts the down payment transaction as a special general ledger transaction in the vendor account. Hence, it will not appear in the regular balance but only in special general ledger balance. Once, the down payment is cleared against an invoice, the balance is shifted from the special general ledger balance to the regular vendor account balance.

The Proposed Down Payment Special G/L A/c No's for ABC to be created are:

Special Indicators	Reconciliation Account No	Recon. GL A/c No.	Special G/L A/c No
A	Sundry Creditors – Staffing	01300601	XXXXXX
A	Creditors for Capital Goods	01300801	XXXXXX
A	Creditors for Purchases	01301001	XXXXXX
A	Creditors Imports	01301101	XXXXXX
A	Creditors for Expenses	01300901	XXXXXX
A	Staff Advances	01301201	XXXXXX
A	Travel Advances	01301301	XXXXXX
A	Other Advances	01301401	XXXXXX

Vendor Master:

Master data is created for each Vendor at Company Code level.

Vendor master is created centrally in financial accounting with their respective views. However, vendors can be created only in financial accounting. For example, auditors, insurance Companies etc. When it is created centrally, it has purchasing view and also accounting views. In cases, where it is defined in financial accounting, the accounting views only are defined.

In case of central creation, materials management personnel will create the purchasing view of the vendor and financial accounting personnel will create the accounting views for the same. The accounting view consists of reconciliation account, method of payment, tolerance groups etc.

Vendor Master Data contains critical information on the vendor such as the Name & Address, Tax Registration Numbers, Reconciliation Account, Payment Terms, Withholding Tax codes, Etc.

ABC requires Vendor Masters to be Created Centrally, though the purchasing view is not applicable in the present scenario, we would like to keep the option open, thus we intend to create the masters centrally, which enables us to create both the purchasing view as well as the accounting views in one step. The Vendor Masters are here with attached in the Annex 3.

Bank Accounting:

In SAP, to simplify the bank reconciliation, the entries are not posted to main bank account directly. Instead they are posted to clearing accounts depending upon the nature of transaction. Entries in the clearing accounts would be cleared at the time of updating the bank statement and executing bank reconciliation in SAP and corresponding entries would be posted in the main bank account based on posting keys, posting rules, account symbols and account determination defined in customizing that would ideally reflect the balance as per bank statement.

House Banks:

Each house bank of a company code is represented by a bank ID in the SAP system, every account at a house bank by an account ID.

We use the bank ID and the account ID to specify bank details.

As per the initial study of ABC business process we tend to create House Banks relevant to the organization present practice which are as below:

List of House Banks

Check lots:

The pre-numbered checks are usually split into lots so that they can be printed or filled out at different locations.
A check number interval in the SAP System represents a lot of pre-numbered checks

ABC follows manual Check Numbers, to be given by management.			
Lot No	**Description**	**Check No from**	**Check No To**

Withholding tax:

A form of taxation deducted at the beginning of the payment flow. typically, an amount is withheld and paid over or reported to the tax authorities on behalf of (as opposed to by) the person subject to tax, the exception being self-withholding tax. If a withholding tax exemption is available, withholding tax is not withheld.

The withholding tax country is needed for printing the withholding tax form. Standard is available with SAP.

Withholding Tax Keys:

The withholding tax keys correspond to the withholding tax laws according to which tax is withheld. The system can therefore assign the withholding tax items to the correct withholding tax return.

National tax authorities use withholding tax keys to identify the different withholding tax types, which we define these official names for tax codes here.

Withholding Tax Type:

The withholding tax type controls the essential calculation options for extended withholding tax, whilst the withholding tax code only controls the percentage rate of the withholding tax.

we must enter the withholding tax type in the customer/vendor withholding tax master data and in the company code master data.

Withholding Tax Codes:

We define the tax base and rate in the withholding tax code. we make the settings for each country and withholding tax type. We can therefore define as many withholding tax codes as required for each withholding tax type.

TDS:

When making Account Payable voucher SAP prompts for all TDS codes applicable for the supplier – If the supplier is linked to Advance Payment TDS code and Normal Payment TDS code, both will be prompted at the time of Account Payable creation and user needs to remove the Advance payment TDS code

Rectification of AP Voucher: After TDS challan has been generated for the AP voucher, system does not allow for any changes to the AP voucher

TDS Challan is generated Section wise; TDS Form 16 Serial Number will be common across branches. TDS is applicable for Cash Payment voucher also.

Accounts Receivables:

The Accounts Receivable application component records and administers accounting data of all customers. All postings in Accounts Receivable are also recorded directly in the different G/L accounts depending on the transaction involved. The system contains a range of tools that we can use to monitor open items, such as account analyses, due date lists, and a flexible dunning program.

Account Groups:

When we create a master record for a business partner, we must enter an account group. The account group determines which screens and fields are necessary for entering master data.

How master record numbers are assigned (externally by us or internally by the system) and the number range from which they are assigned.

> **As per the initial study of ABC business process we tend to create Customer Account Groups relevant to the organization present practice which are as below:**

Account Group	Description	From No	To No
ONUS	Onsite USA	010001	020000
ONUK	Onsite UK	020001	030000
OFHY	Offshore Hyderabad	030001	040000
DOSS	Domestic Software Services	040001	050000
DORF	Domestic RF Engineering	050001	060000
DOTC	Domestic Telecom Suppliers	060001	070000
DOTP	Domestic Teleprint	070001	080000

Reconciliation Accounts:

We must specify / assign a reconciliation account in the master record so that all postings made to a subsidiary ledger are also posted to the general ledger. When we post items to a subsidiary ledger, the SAP system automatically posts the same data to the general ledger at the same time. Each subsidiary ledger has one or more reconciliation accounts in the general ledger. These reconciliation accounts ensure that the balance of G/L accounts is always zero. This means that we can draw up financial statements at any time without having to transfer totals from the sub-ledgers to the general ledger.

Customer Document No. Range:

A number range must be assigned to each document type in the SAP System. Via the document types, we distinguish the postings according to the different business transactions, for example customer payment, vendor credit memo, and so on. To store documents separately according to document types, we must assign a separate number range to each document type.

The number intervals must not overlap. If we use year-dependent number ranges, we can specify the same intervals with the same key several times for different 2 fiscal years.

ABC follows Document No. Ranges on year-dependent basis thus, the suggested Document Number Ranges on year-dependent basis are as below:

Doc. Type	No	Year	From No.	To No.	Ext	Description
DZ	14	2007	14000001	15000000		Customer payment
DA, DG	16	2007	16000001	17000000		Customer document
DR	18	2007	18000001	19000000		Customer invoice

Customer Tolerances:

we specify the tolerances for customers. These tolerances are used for dealing with differences in payment and residual items which can occur during payment settlement. Specify the tolerances under one or more tolerance groups. Allocate a tolerance group to each customer via the master

record. For each tolerance group, specify the following:

The proposed Customer Tolerances are:			
Tolerance Group	**Description**	**Amount**	**Adj. Discount by**
	ABC : Customer Tolerances Group	100	100

Customer Terms of Payment:

The terms of payment key can determine the following:

7 The valid cash discount rate for an individual payment with a maximum of 3 payment terms (first cash discount period, second cash discount period and due date for net payment) and also a baseline date for the payment, or

- The terms of payment for installment payments.

If we maintain a key for the terms of payment in the Customer Master record, the system automatically defaults this key whenever we enter an item for this Customer.

The proposed Customer Payment Terms are:		
Payment terms key	**Description**	**Discount**
0001 (Standard)	Immediately Due	-
ZPC1	15 days without discount	-
ZPC2	30 days without discount	-

Customer Master:

Master data is created for each Customer at Company Code level.

Customer master is created centrally in financial accounting with their respective views. However, Customer can be created only in financial accounting. For example, auditors, insurance Companies etc. When it is created centrally, it has sales view and also accounting views. In cases, where it is defined in financial accounting, the accounting views only are defined.

In case of central creation, sales personnel will create the sales view of the Customer and financial accounting personnel will create the accounting views for the same. The accounting view consists of reconciliation account, tolerance groups etc.

Customer Master data contains critical information on the Customer such as the Name & Address, Tax Registration Numbers, Reconciliation Account, Payment Terms, Withholding Tax codes, Etc.

ABC requires Customer Masters to be Created Centrally, though the sales view is not applicable in the present scenario, we would like to keep the option open, thus we intend to

> **create the masters centrally, which enables us to create both the sales view as well as the accounting views in one step. The Customer Masters are here with attached in the Annex 5.**

Dunning:

Dunning process will be used as a reminder for intimating the due date before and after. we can send them as a payment reminder or a dunning notice to remind them of their outstanding debts. The SAP System allows us to dun business partners automatically. The system duns the open items from business partner accounts in which the overdue items create a debit balance. The dunning program selects the overdue open items, determines the dunning level of the account in question, and creates a dunning notice. It then saves the dunning data determined for the items and accounts affected.

At present no atomized reminding system is in place. However, ABC would like use the standard procedure in place in SAP. (By way of letter / mails / SMS etc., to the customer and to the concerned sales officer / Regional head).

The proposed Dunning Notice Frequency's are:	
Dunning Levels / Reminders	**Description**
1st Reminder	15days before the due date
2ndReminder	On the date of Due date.
3rd Reminder	5 days after the due date
4th Reminder	30 days after the due date (from 31st day on words interest is to be charged @ 12% P.A)
5th Reminder	45 days after the due date with interest

Cash Journal:

A double-entry compact journal managed in account form that records the postings for cash transactions.

It is used to manage a company's cash transactions. The system automatically calculates and displays the opening and closing balances, and the receipts and payments totals. We can run several cash journals for each company code. We can also carry out postings to G/L accounts, as well as vendor and customer accounts.

We have to define a number range interval for cash journal documents. Each document then receives a unique number that does **not** clash with the G/L document number. The following business transaction types can be posted in Cash Journal.

E (Expense)
R (Revenue)
B (Cash transfer cash journal to bank)
C (Cash transfer bank to cash journal)
D (Customers-incoming/outgoing payment)

K (Vendors-outgoing/incoming payment)

Asset Accounting:

The Asset Accounting (FI-AA) component is used for managing and supervising fixed assets with the SAP System. In Financial Accounting, it serves as a subsidiary ledger to the General Ledger, providing detailed information on transactions involving fixed assets.

The Asset Accounting component is intended for international use in many countries, irrespective of the nature of the industry. This means, for example, that no country-specific valuation rules are hard-coded in the system. We give this component its country-specific and company-specific character with the settings we make in Customizing. To minimize the time and energy involved in Customizing, country-specific defaults are provided in the standard system where possible.

As a result of the integration in the SAP System, Asset Accounting (FI-AA) transfers data directly to and from other SAP components. For example, it is possible to post from the Materials Management (MM) component directly to FI-AA. When an asset is purchased or produced in-house, we can directly post the invoice receipt or goods receipt, or the withdrawal from the warehouse, to assets in the Asset Accounting component. At the same time, we can pass on depreciation and interest directly to the Financial Accounting (FI) and Controlling (CO) components. From the Plant Maintenance (PM) component, we can settle maintenance activities that require capitalization to assets.

Chart of Depreciation:

The chart of depreciation is a list of depreciation areas arranged according to business and legal requirements. The chart of depreciation enables us to manage all rules for the valuation of assets in a particular country or economic region.
We must assign a chart of depreciation to each company code that is defined in Asset Accounting. SAP provides country-specific charts of depreciation with predefined depreciation areas. These charts of depreciation serve only as a reference for creating your own charts of depreciation, and are therefore not directly accessible in the SAP system. When creating a chart of depreciation, we have to copy the reference chart of depreciation.

When we create a chart of depreciation, the system copies all of the depreciation areas in the reference chart of depreciation. We have to delete any depreciation areas that we do not need in our chart of depreciation.

The proposed Chart of Depreciation for the Company Code 1000	**"9999"**

(ABCLtd.) is:	

Depreciation Areas:

You use depreciation areas to calculate different values in parallel for each fixed asset for different purposes. For example, you may require different types of values for the balance sheet than for cost accounting or tax purposes. You manage the depreciation terms and values necessary for this valuation in the depreciation areas of each asset. Since the system allows you to define up to 99 depreciation areas, you can manage many different types of valuation (Customizing: *Valuation*). Depreciation areas are grouped together, according to the requirements of a specific country or economic area, into a chart of depreciation

Depreciation Areas:	
Description	**Depreciation Area**
Book depreciation	01
Depreciation as per Income Tax Act 1961	15
Cost-accounting depreciation	20
Consolidated balance sheet in local currency	30
Consolidated balance sheet in group currency	31
Book depreciation in group currency	32

Depreciation Keys:

Depreciation keys are defined at the level of the **Error! Hyperlink reference not valid.**. Therefore, they are available in all company codes. With the help of the depreciation keys defined within a chart of depreciation, you can set up the chart of depreciation with uniform depreciation terms based on the special rules for valuation in an economic area (country, geographical region and so on).

The standard charts of depreciation in the ERP System contain depreciation keys that are predefined to meet country-specific depreciation needs.

You can divide the duration of depreciation into several phases in the depreciation key. If you enter a changeover method for one of these phases, the system changes over to the next phase as soon as the event specified in the changeover method occurs. Then the system uses the type of depreciation calculation that is specified for that next phase.

Calculation Methods:

The system uses calculation methods for the calculation of depreciation and imputed interest. You assign calculation methods to **Error! Hyperlink reference not valid.**. The calculation methods provide the parameters for the depreciation calculation program.

The calculation of depreciation is controlled by the calculation methods, the control parameters that are entered in depreciation keys.

Calculation Method	Control Parameters
Error! Hyperlink reference not valid.	**Error! Hyperlink reference not valid.** (ordinary or special depreciation, interest) **Error! Hyperlink reference not valid.** (for example, *Stated percentage*) **Error! Hyperlink reference not valid.**
Error! Hyperlink reference not valid.	Declining-balance multiplication factor, maximum and minimum percentage rate
Error! Hyperlink reference not valid.	Maximum amount, currency, validity date
Error! Hyperlink reference not valid.	Validity date or period, levels, **Error! Hyperlink reference not valid.**, calculation of percentage or remaining useful life, reduction of base value
Error! Hyperlink reference not valid.	Period control for acquisition, subsequent acquisition, retirement, transfer

Account Determination:

One of the most important functions of the asset class is to establish the connection between the asset master records and the corresponding accounts in the general ledger in Financial Accounting. This connection is created by the account determination key in the asset class.

You define the account determinations for Asset Accounting (key and description). The key of an account determination must be stored in the asset class asset class. In this way, the account determination links an asset master record to the general ledger accounts to be posted for an accounting transaction using the asset class.

You specify the general ledger accounts to be posted for the individual accounting transactions in later implementation activities. You can specify various accounts for each depreciation area to be simultaneously posted to.

Screen Layout Rules:

In this step, you create your screen layout rules. The screen layout specifies the status of the fields in the asset master record. You use the screen layout to determine if fields are required entry or optional entry fields, or if they are suppressed completely, for example.

In this step, you create only the keys and descriptions of the screen layout controls. You define the

the field group rules for the screen layouts themselves in the step Master Data.

You can enter a screen layout rule in one of two places: either in the part of the asset class valid in the entire client, or in the part of the asset class valid for the chart of depreciation. The screen layout rule is then valid either for all assets in the asset class, or for all assets in the asset class/chart of depreciation.

Number Range Interval

In this step, you define the number ranges for this company code for assigning the main asset number. You can roughly classify your asset portfolio using the number ranges.

In the asset class, you can specify the number range for the assignment of numbers for that asset class. To keep administration needed for the number assignment to a minimum, you should use number ranges with internal assignment. You can enter asset numbers of unique and special significance in the master data field "inventory number."

Asset Class:

A system object used to group assets of similar kinds (such as buildings or machinery), primarily for the purposes of account determination.

Asset classes are the most important means of structuring fixed assets. we can define an unlimited number of asset classes in the system. We use the asset classes to structure your assets according to the requirements of your enterprise. Asset classes apply in all company codes. The asset class catalog, therefore, is relevant in all company codes in a client. The preceding is also true when the company codes have different charts of depreciation and therefore different depreciation areas.

The most important control parameters are:

- The Account Determination

- The Screen Layout Rule

- The number interval that the system should use for assigning asset main numbers in the asset class

Asset Masters:

In the step "Master data", we can make the necessary system settings related to master data maintenance in the FI-AA System. In addition, we can define evaluation groups and our own match codes.

The asset master record contains all information relating to an asset that remains unchanged over a long period of time:

- General master data

- Organizational allocations (usually time-dependent)

- Depreciation terms

We can also enter depreciation terms that are time-dependent (that is, valid for a fixed period of time). Depreciation terms that can be time-dependent include the useful life, depreciation key, and the scrap value.

The system stores all the values and transaction data separately on each individual asset master record.

We can differentiate between different types of assets in the FI-AA component. The structure of the master record is identical for all asset main numbers, asset sub numbers and group assets. Therefore, the basic procedure for creating any of these objects is essentially the same.

The proposed Asset Masters with reference to Asset Class & other relevant data are given in the Annexure 6:

CONTROLLING

Index – List of Business Processes

Process Description
Definitions
Master Data
Master Data Maintenance
Cost Centre
Cost Centre Group

Cost Elements
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Internal Orders
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Business Process
Budgeting
Cost Center Planning
Actual Postings
Distribution & Assessment Cycle
Period End Closing Activities
Profit Center Accounting
Profit Center Periodic Processing
Assigning additional B/S Accounts to Profit Center

Definitions:

Actual Cost:

An actual costing system determines the actual labour, material and overhead expenditures for the period and assigns them directly to cost objects, The amount of overhead applied, therefore, is always equal to the amount of overhead incurred.

Controlling area

The controlling area is the central organizational unit of the *Controlling* (CO) component. You use the controlling area to carry out cost accounting.

Variance:

It is the difference between the estimated cost of an activity and the actual cost of that activity.

Cost Center:

The Cost Center is used in system to analyze those expenses, which are recurring in nature, and detailed analysis is required for such expenditure.

The Term Cost center means the specific area or individual department, Item where we would like to capture our expenses based on the same the expenditure analysis can be done.

Budget:

Approved cost structure for an action or project in a particular period of time.
These are the annual estimates decided with a view to control and monitor the expenditure.

Integration:

Controlling (CO) and Financial Accounting (FI) are independent components in the SAP system. The data flow between the two components takes place on a regular basis. Therefore, all data relevant to costs flows automatically to Controlling from Financial Accounting. At the same time, the system assigns the costs and revenues to different CO account assignment objects, such as cost Centers, business processes, projects or orders. The relevant accounts in Financial Accounting are managed in Controlling as cost elements or revenue elements. This enables you to compare and reconcile the values from Controlling and Financial Accounting.

ABC CO Organization Structure

The proposed Controlling Organization structure for ABC is given below:

Cost Element

Cost Elements are created for the purpose of recording costs in cost objects like, cost centers, internal orders, production orders etc.,

Cost Elements are of two types, Primary and Secondary. Primary cost elements correspond to the expenses and revenue accounts in the chart of accounts.

Secondary cost elements on the other hand occur within controlling module. Examples of secondary

costs are canteen costs, machine hour costs or labor hour costs. Secondary cost elements are further divided in to assessment cost element, internal activity allocation, overhead cost element etc., and it is necessary that before creating a secondary cost element, which category of cost element is to be defined is to be known.

New cost elements can be created at any point of time. They have a validity period. It is important that the validity period of the cost element is to be maintained from the beginning of the fiscal year to avoid inconsistencies in planning and allocation cycles. System facilitates entering of the validity period from the beginning of the fiscal year, even though the cost element is created during the fiscal year.

> **Cost Elements are taken from the GL Masters created in FI configuration. The Account No's for the Cost Elements are same as GL Account No's.**

Cost Center:

Cost centers are areas of responsibility where costs are incurred and monitored. Care has to be taken before creating a cost center as to whether it is really necessary to create the cost center and whether the required costs can be captured there. If costs can not be captured, then obviously the creation of a cost center becomes redundant.

Before creating a cost center, it is necessary that a hierarchy is created logically defining the cost center groups, keeping in view the reporting requirements. The node under which the cost center is to be created is to be decided before creating the cost center.

> **Cost Centers are created according to the departments such as Development & Services HR & Admn, Marketing, Purchase & Accounts. Further sub departmental bifurcation is taken as sub notes / cost centers. The detailed cost center hierarchy is given below.**

ABC Cost Center Hierarchy Structure

Internal Order

Internal Orders are temporary cost objects, where costs are stored and settled later to other cost objects like cost centers or internal orders etc.

There are various types of internal orders like overhead orders, capital investment orders etc.; it is necessary that before creating an order, the type of order needs to be known.

Internal Orders can be statistical or real.

In case of statistical orders, the costs are simply captured and no further allocations can be made from them. A box is to be checked, if the order is to be created as statistical order.

In case of real orders, further allocations can be done. In case of real orders, the settlement rule is to be defined as to how the costs are to be transferred from this order to other objects like cost center or another order etc., and in which proportions.

Stastical Orders are proposed for capturing the Telephone number wise cost incurred by creating each Telephone number as an Internal Order. However the total costs are captured in GL account for Telephone Expenses. Similarly Vehicle expenses for each vehicle by creating Internal Order for each Vehicle number.

Profit Center:

A profit center is an organizational unit in accounting that reflects a management-oriented structure of the organization for the purpose of internal control. You can analyze operating results for profit centers using the period accounting   approach

Before creating a profit center, it is necessary that a hierarchy is created logically defining the profit center groups, keeping in view the reporting requirements. The node under which the profit center is to be created is to be decided before creating the profit center.

The proposed profit centers are created basing on the company's main Services such as Telecom, Embedded, Health Care, Manufacturing, Retail, technology, Banking & Finance Services and Insurance(BFSI). The detailed cost center hierarchy is given below.

ABC Profit Center Hierarchy Structure:
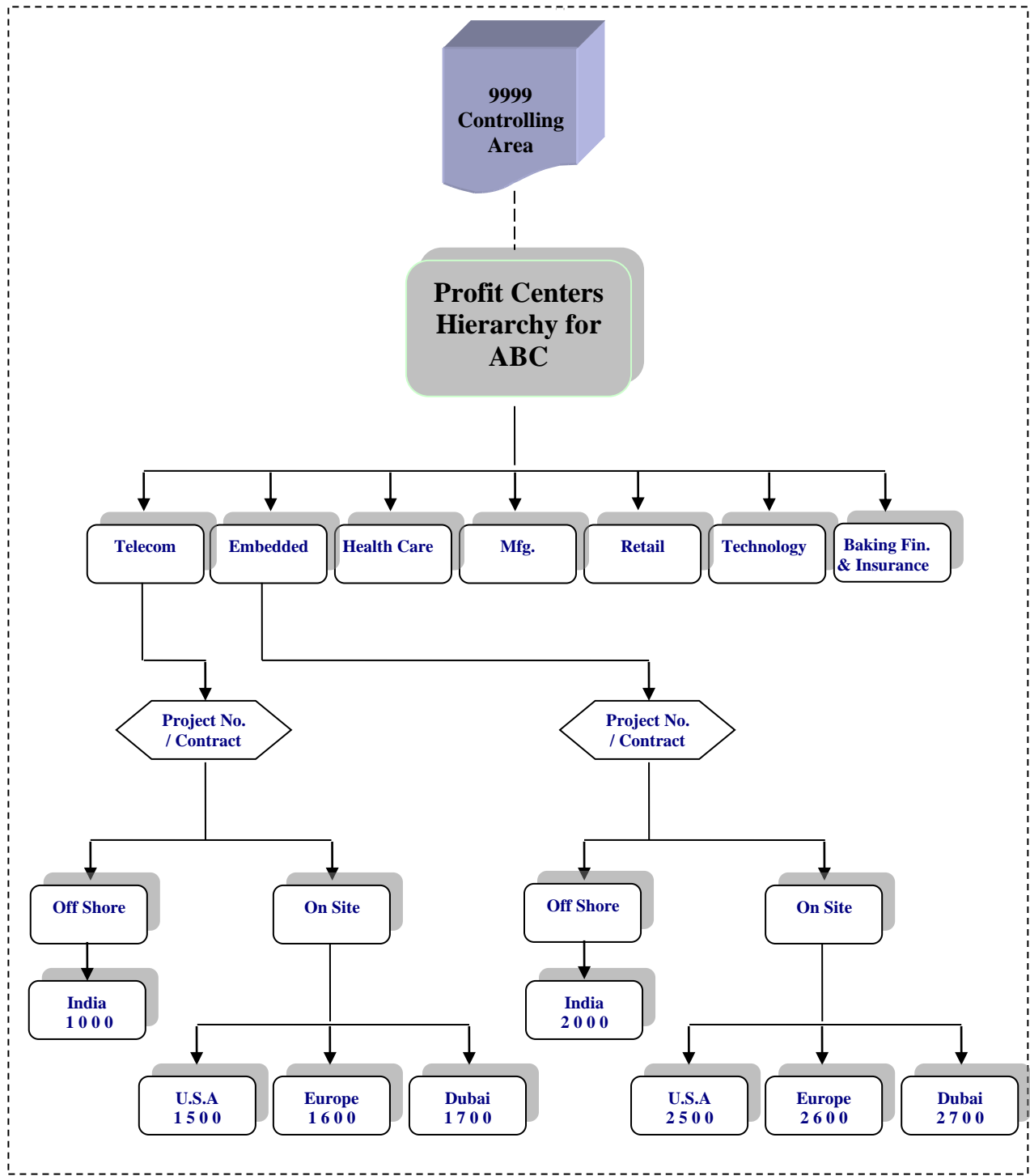
Flow chart conventions

The following flowcharting conventions are used in this document.

(rounded rectangle)	Start/End of the process
(diamond)	Decision Box
(rectangle with S)	System Process
(rectangle with M)	Manual Process
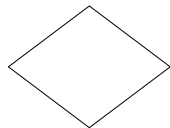
Setup Master Data

Create General Ledger Master

General Ledger Master is created at Chart of Accounts Level and at Company Code Level. At Chart of Accounts Level, it consists of the GL account number, Profit and Loss Account or Balance Sheet Account, Description. At Company Code level, it consists of data pertaining to Account currency, Open item management, line item display, field status etc.,
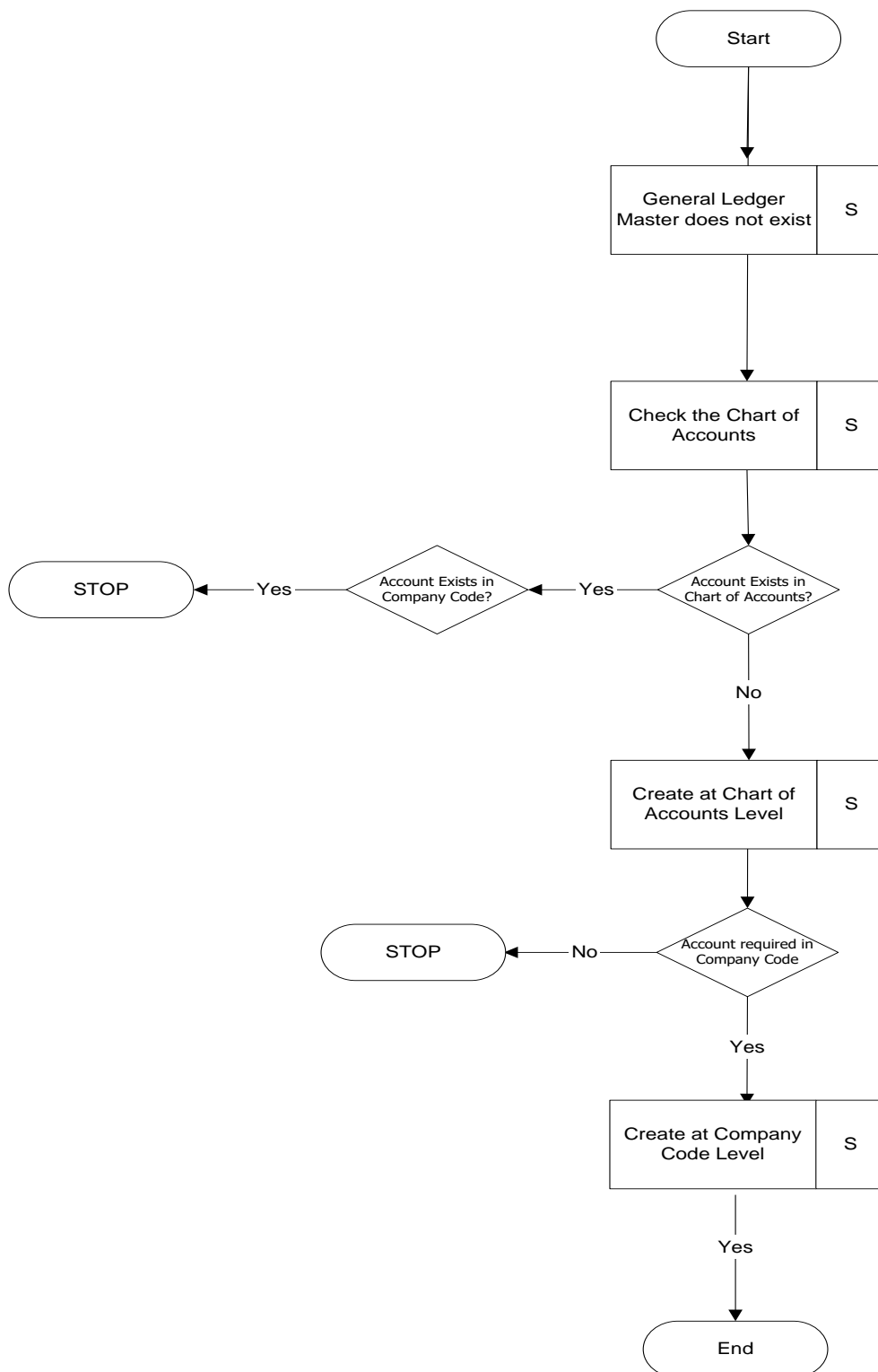
Flow diagram for maintaining general ledger master

Create Vendor Master

Vendor master is created centrally in materials management & financial accounting with their respective views. However, vendors can be created only in financial accounting. For example, auditors, insurance Companies etc. When it is created centrally, it has purchasing view and also accounting views. In cases, where it is defined in financial accounting, the accounting views only

are defined.

In case of central creation, materials management personnel will create the purchasing view of the vendor and financial accounting personnel will create the accounting views for the same. The accounting view consists of reconciliation account, method of payment, tolerance groups etc.

It is necessary that the reconciliation account for the Vendor is correctly identified and defined in the master data.

```
                            ┌─────────┐
                            │  Start  │
                            └────┬────┘
                                 │
                                 ▼
                            ◇ Create Vendor ◇──No──▶ ┌──────────────────┬───┐
                            ◇ Centrally ?   ◇        │ Decide the account│ M │
                                 │                   │      group        │   │
                                 │                   └─────────┬────────┴───┘
        ┌────────────────────── Yes                           │
        │                        │                            ▼
        │                        ▼                   ┌──────────────────┬───┐
┌───────────────┬───┐    ◇ Purchasing view ◇──No──▶ │ Create vendor in that │ S │
│ Materials     │ S │◀── ◇ created?        ◇        │   account group   │   │
│ management    │   │                                └─────────┬────────┴───┘
│ process       │   │         │                                │
└───────────────┴───┘        Yes                               ▼
                              │                        ◇ Create Accounting ◇
                              │              Yes────── ◇       View        ◇
                              ▼            ┌───────────────────┘   │
                     ┌──────────────┬───┐◀─┘                       No
                     │ Create accounting│ S │                      │
                     │    views      │   │                         │
                     └───────┬──────┴───┘                          │
                             │◀─────────────────────────────────────┘
                             ▼
                     ┌──────────────┐
                     │ Vendor is created │
                     └───────┬──────┘
                             ▼
                     ┌──────────┐
                     │   Stop   │
                     └──────────┘
```
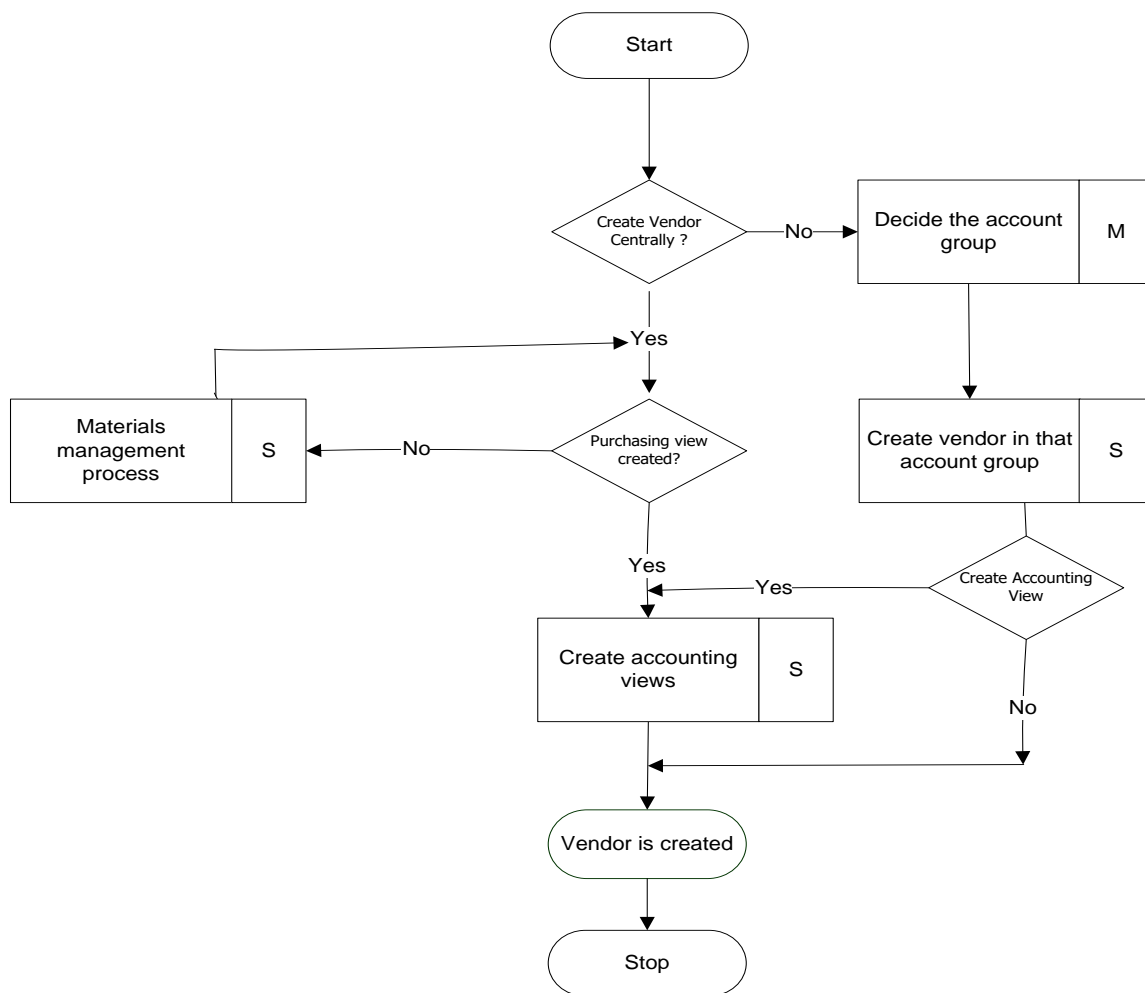
Flow diagram for maintaining vendor master

Create Customer Master

Customer Master is created centrally in sales and distribution and financial accounting with their respective views. However, they are created only in financial accounting as in the case of customers for sale of assets, sale of scrap etc. When customer master is created centrally, it has sales view and also accounting views. In cases, where it is defined in financial accounting, only the accounting views are defined.

In case of separate creation, sales and distribution personnel will create the sales organization view of the customer and financial accounting personnel will create the accounting views for the same. The accounting view consists of reconciliation account, method of payment, tolerance groups etc.

It is necessary that the reconciliation account for the customer is correctly identified and defined in the master data.
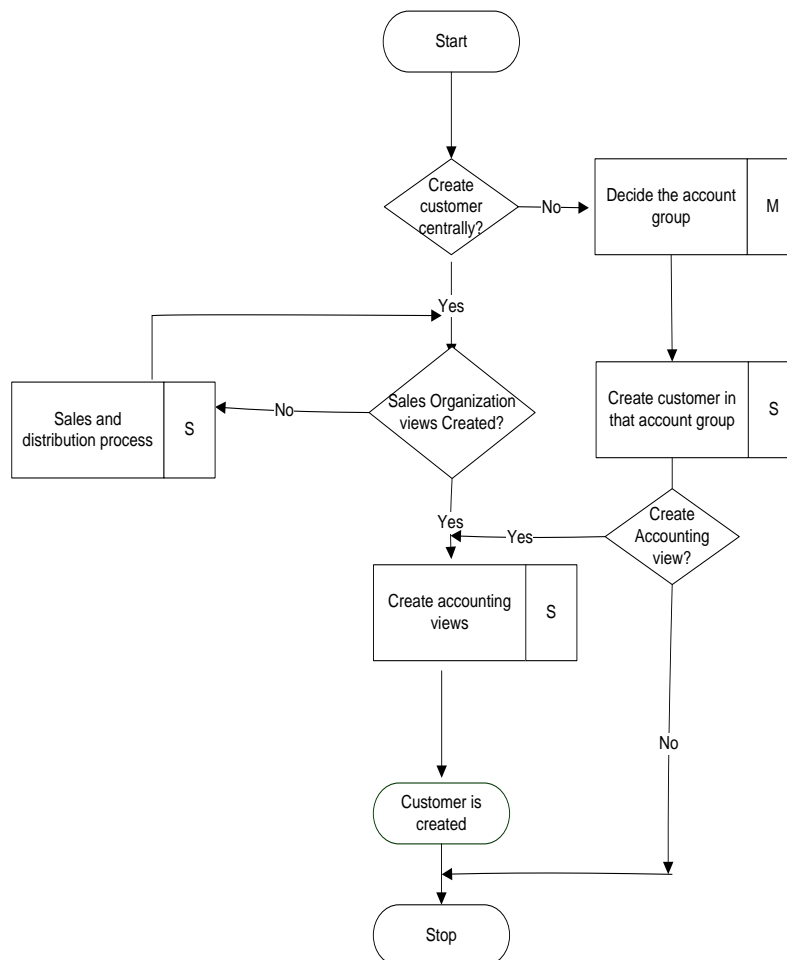
Flow diagram for customer master

Create Asset Master

Assets are created under respective asset classes. When an asset is created under an asset class, the

default values pertaining to that class like, depreciation terms, useful life etc., are copied. The depreciation terms, if required can be changed.
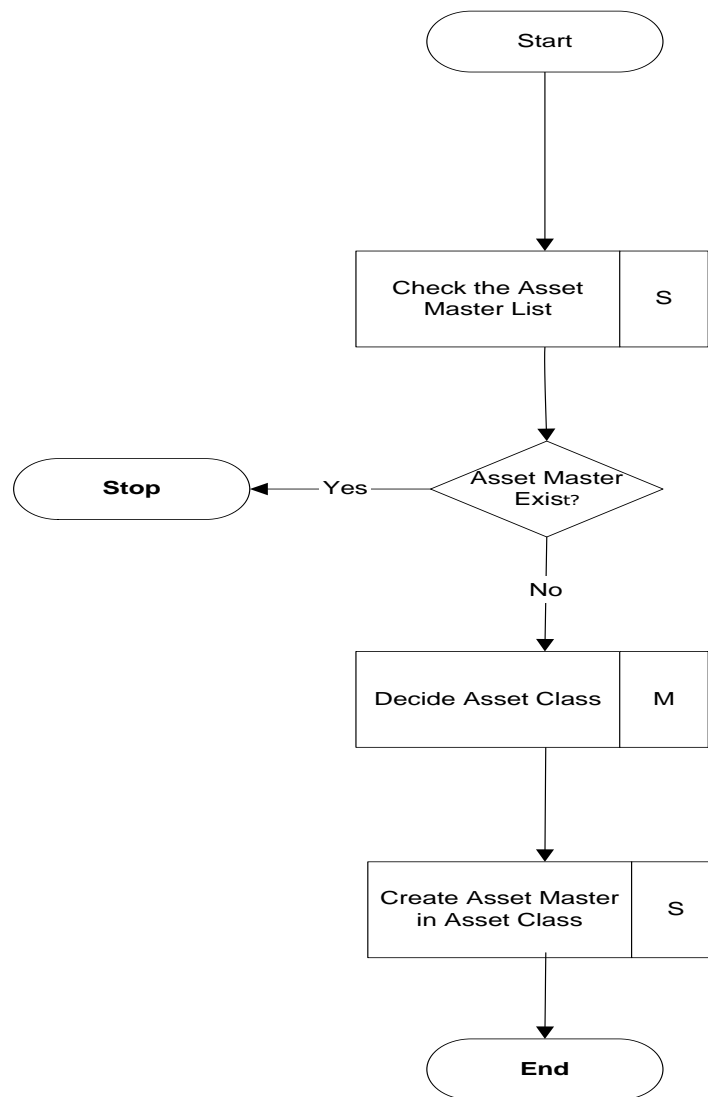
Flow diagram for creation of asst master

Create Cost Element

Cost Elements are created for the purpose of recording costs in cost objects like, cost centers, internal orders, production orders etc., Cost Elements are of two types, Primary and Secondary. Primary cost elements correspond to the expenses and revenue accounts in the chart of accounts.

Secondary cost elements on the other hand occur within controlling module. Examples of secondary costs are canteen costs, machine hour costs or labor hour costs. Secondary cost elements are further divided in to assessment cost element, internal activity allocation, overhead cost element etc., and it is necessary that before creating a secondary cost element, which category of cost element is to be defined is to be known.

New cost elements can be created at any point of time. They have a validity period. It is important that the validity period of the cost element is to be maintained from the beginning of the fiscal year to avoid inconsistencies in planning and allocation cycles. System facilitates entering of the validity period from the beginning of the fiscal year, even though the cost element is created during the fiscal year.

Flow diagram for creation of cost elements

Create Cost Center

Cost centers are areas of responsibility where costs are incurred and monitored. Care has to be taken before creating a cost center as to whether it is really necessary to create the cost center and whether

the required costs can be captured there. If costs can not be captured, then obviously the creation of a cost center becomes redundant.

Before creating a cost center, it is necessary that a hierarchy is created logically defining the cost center groups, keeping in view the reporting requirements. The node under which the cost center is to be created is to be decided before creating the cost center.

```
                        ( Start )
                           |
                           v
        +------------------------+-------+
        | Cost Center is to be   |   S   |
        |       created          |       |
        +------------------------+-------+
                           |
                           v
        +------------------------+-------+
        | Determine the cost     |   M   |
        |    center category     |       |
        +------------------------+-------+
                           |
                           v
        +------------------------+-------+
        | Determine the          |   M   |
        |    hierarchy node      |       |
        +------------------------+-------+
                           |
                           v
        +------------------------+-------+
        | Determine validity     |   M   |
        |       period           |       |
        +------------------------+-------+
                           |
                           v
        +------------------------+-------+
        | Create cost center     |   S   |
        |   with the above       |       |
        |      details           |       |
        +------------------------+-------+
                           |
                           v
                        (  End  )
```
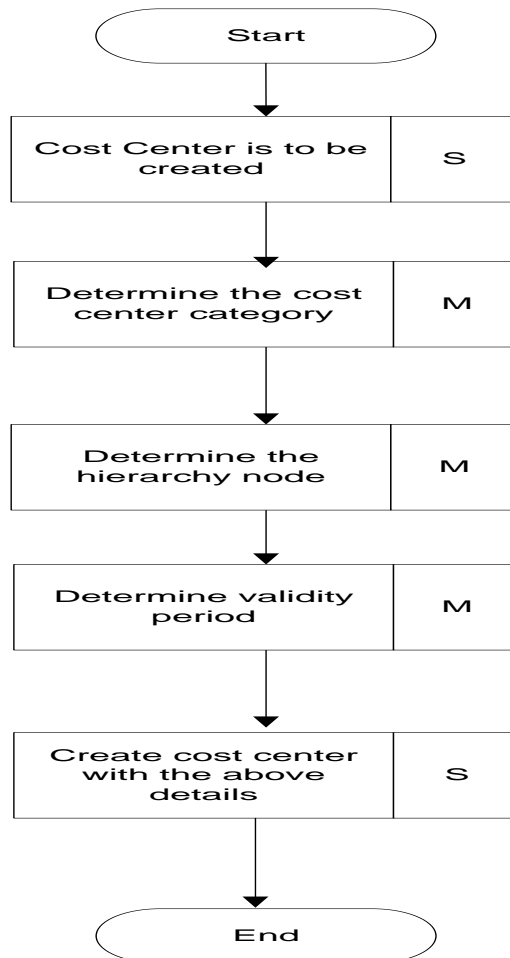
Flow diagram for creation of cost center

Create Profit Center

A profit center is an organizational unit in accounting that reflects a management-oriented structure of the organization for the purpose of internal control. You can analyze operating results for profit centers using the period accounting   approach

Before creating a profit center, it is necessary that a hierarchy is created logically defining the profit center groups, keeping in view the reporting requirements. The node under which the profit center is to be created is to be decided before creating the profit center.
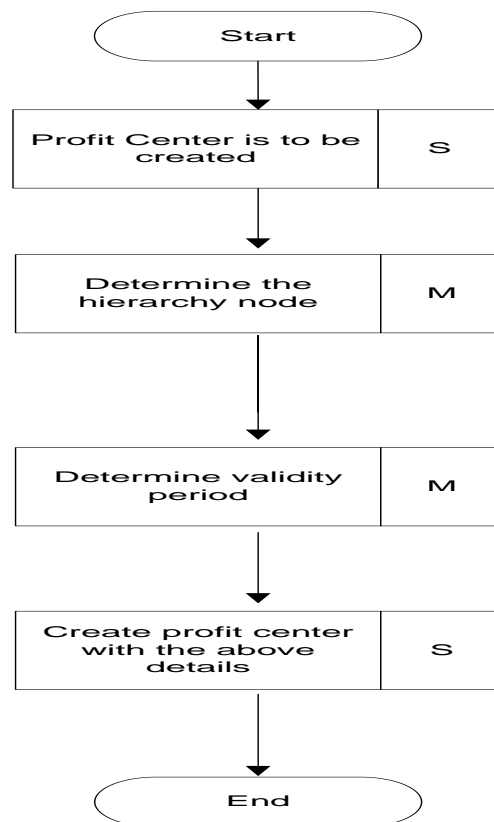
Flow diagram for creation of cost center

Create Internal Order

Internal Orders are temporary cost objects, where costs are stored and settled later to other cost objects like cost centers or internal orders etc. There are various types of internal orders like overhead orders, capital investment orders etc.; it is necessary that before creating an order, the type of order needs to be known. Internal Orders can be statistical or real.

In case of statistical orders, the costs are simply captured and no further allocations can be made from them. A box is to be checked, if the order is to be created as statistical order.

In case of real orders, further allocations can be done. In case of real orders, the settlement rule is to be defined as to how the costs are to be transferred from this order to other objects like cost center

or another order etc., and in which proportions.

```
                          ╭─────────╮
                          │  Start  │
                          ╰─────────╯
                               │
                               ▼
               ┌──────────────────────┬─────┐
               │ Internal order is to │  S  │
               │     be created       │     │
               └──────────────────────┴─────┘
                               │
                               ▼
               ┌──────────────────────┬─────┐
               │ Determine the order  │  M  │
               │        type          │     │
               └──────────────────────┴─────┘
                               │
                               ▼
                            ◇─────────◇
              ◀──No──      │Statistical│
              │             │  order?  │
              │             ◇─────────◇
              │                  │
              │                 Yes
              │                  ▼
     ┌────────────────┬───┐   ┌──────────────────┬─────┐
     │Define settlement│ S │  │Check box statistical│  S  │
     │      rule      │   │   │      order        │     │
     └────────────────┴───┘   └──────────────────┴─────┘
              │                  │
              └──────────────────┘
                               │
                               ▼
               ┌──────────────────────┬─────┐
               │  Create internal order│  S  │
               └──────────────────────┴─────┘
                               │
                               ▼
               ┌──────────────────────┬─────┐
               │   Release internal   │  S  │
               │        order         │     │
               └──────────────────────┴─────┘
                               │
                               ▼
                          ╭─────────╮
                          │   End   │
                          ╰─────────╯
```

Flow diagram for creation of internal order

Business / Accounting Processes

Park and post general ledger document

ABC requires recording of general ledger transactions. For this purpose GL sub component of financial accounting module is used. The documents are entered in to the system and depending on the work flow specifications and authorizations; the documents are parked and posted later.

```
                            ┌──────────┐
                            │  Start   │
                            └──────────┘
                                 │
                                 ▼
                      ┌─────────────────┬───┐
                      │ GL document     │ S │
                      │ entered         │   │
                      └─────────────────┴───┘
                                 │
                                 ▼
  ┌──────────────┬───┐      ◇ Authorized to ◇
  │ Post the     │ S │◄─Yes─   post?
  │ document     │   │      ◇             ◇
  └──────────────┴───┘           │
         │                      No
         │                       ▼
         │            ┌─────────────────┬───┐
         │            │ Park the document│ S │
         │            └─────────────────┴───┘
         │                       │
         │                       ▼
         │            ┌─────────────────┬───┐
         │            │ Authorized person│ S │
         │            │ accesses the     │   │
         │            │ parked document  │   │
         │            └─────────────────┴───┘
         │                       │
         │                       ▼
  ┌──────────────┬───┐      ◇  Accept?  ◇
  │ Correct the  │ S │◄─No─◇            ◇
  │ document     │   │
  └──────────────┴───┘           │
         │                      Yes
         │                       ▼
         │                  ◇ Authorized to ◇
  ┌──────────────┬───┐      ◇    Post?     ◇
◄─│ Post the     │ S │◄─Yes─
  │ document     │   │           │
  └──────────────┴───┘          No
                                 ▼
                      ┌─────────────────┬───┐
                      │ Authorized person│ S │
                      │ accesses the     │   │
                      │ parked document  │   │
                      └─────────────────┴───┘
                                 │
                                 ▼
                      ┌─────────────────┬───┐
                      │ Post the document│ S │
                      └─────────────────┴───┘
                                 │
                                 ▼
                            ┌──────────┐
                            │   End    │
                            └──────────┘
```
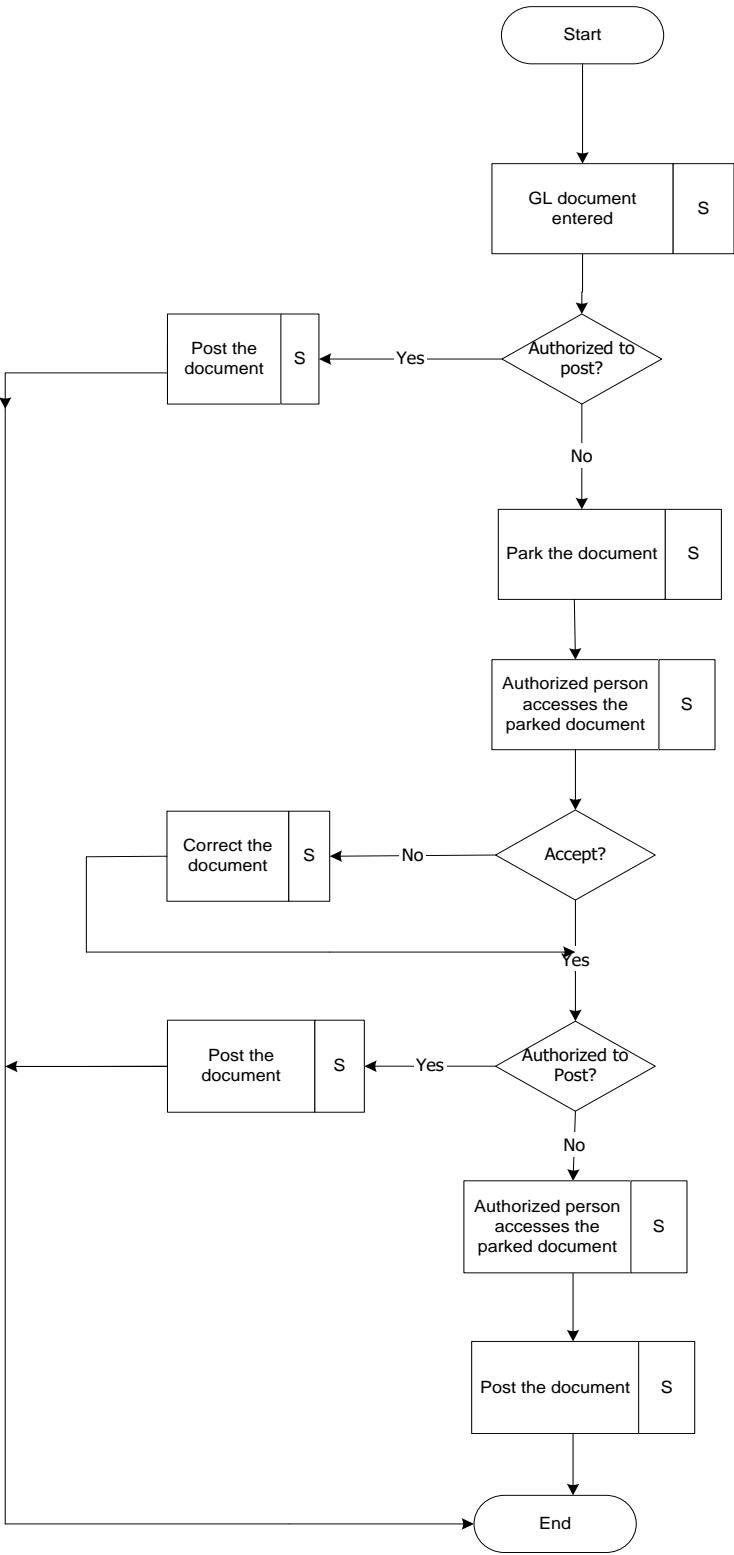
Flow diagram for general ledger document parking and posting

Park and post vendor invoice

ABC requires day to day accounting of the transactions that take place in the organization. This application component is required for entering vendor invoices that arise in the accounts payable module of financial accounting. Purchases are made directly and invoice is submitted to the accounts Department.

 The invoice is entered in the system by the data entry operator and parked. The Accountant or Senior Accountant will check the transaction and either posts it or sends to the Finance Manager for approval. It is posted at his end.

In case, where materials management is involved, the entering of the invoice is done in the logistics invoice verification module of the materials management.

```
                          ┌─────────────┐
                          │    Start     │
                          └──────┬──────┘
                                 │
                                 ▼
                          ┌──────────┬───┐
                          │ Vendor   │   │
                          │ invoice  │ S │
                          │ entered  │   │
                          └──────┬───┴───┘
                                 │
                                 ▼
   ┌──────────┬───┐           ◇ Authorized
   │ Post the │   │◄──Yes──   to post?
   │ invoice  │ S │              ◇
   └──────────┴───┘              │
                                No
                                 │
                                 ▼
                          ┌──────────┬───┐
                          │ Park the │ S │
                          │ invoice  │   │
                          └──────┬───┴───┘
                                 │
                                 ▼
                          ┌───────────┬───┐
                          │ Authorized│   │
                          │ person    │ S │
                          │ accesses  │   │
                          │ the parked│   │
                          │ invoice   │   │
                          └──────┬────┴───┘
                                 │
                                 ▼
                              ◇ Accept? ◇──No──►┌──────────┬───┐
                                 │              │ Correct  │ S │
                                Yes             │ the      │   │
                                 │              │ invoice  │   │
   ┌───────────┬───┐            ▼              └────┬─────┴───┘
   │ Authorized│   │        ◇ Authorized            │
   │ person    │ S │◄──No── to post?                │
   │ accesses  │   │           ◇                    │
   │ the invoice│  │           │                    │
   └─────┬─────┴───┘          Yes───────────────────┘
         │                     │
         └─────────────────────┤
                               ▼
                          ┌──────────┬───┐
                          │ Post the │ S │
                          │ invoice  │   │
                          └──────┬───┴───┘
                                 │
                                 ▼
                          ┌─────────────┐
                          │    End       │
                          └─────────────┘
```
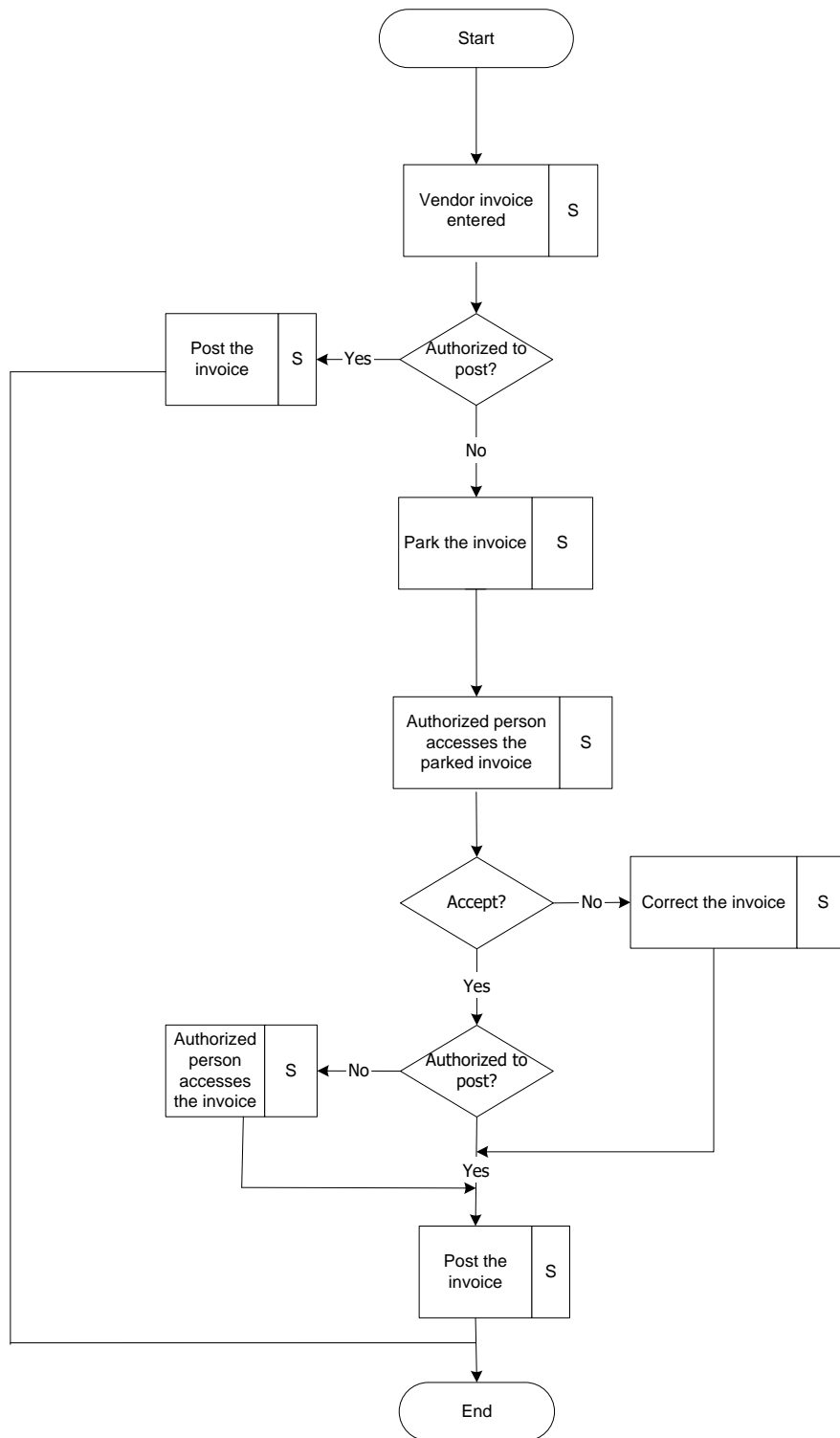
Flow diagram for vendor invoice parking and posting

Vendor Down Payment

ABC has to pay, during their course of transactions, advance payments to the vendors. Advance payments are known as down payments in SAP. Down payment request can be created & viewed by the accounts payable person. After checking the purchase order terms, the down payment is made by the accounts payable person.

The system posts the down payment transaction as a special general ledger transaction in the vendor account. Hence, it will not appear in the regular balance but only in special general ledger balance. Once, the down payment is cleared against an invoice, the balance is shifted from the special general ledger balance to the regular vendor account balance.

Other than the conventional payment mode of cheque we also make the payments through use of E-Payment, Bank Transfers, Cheques, and system should capture the no's other identification marks available in this mode of payment i.e., all possible modes of payment shall be configured in the system.

At the time of document entry, the appropriate special general ledger indicator needs to be chosen.
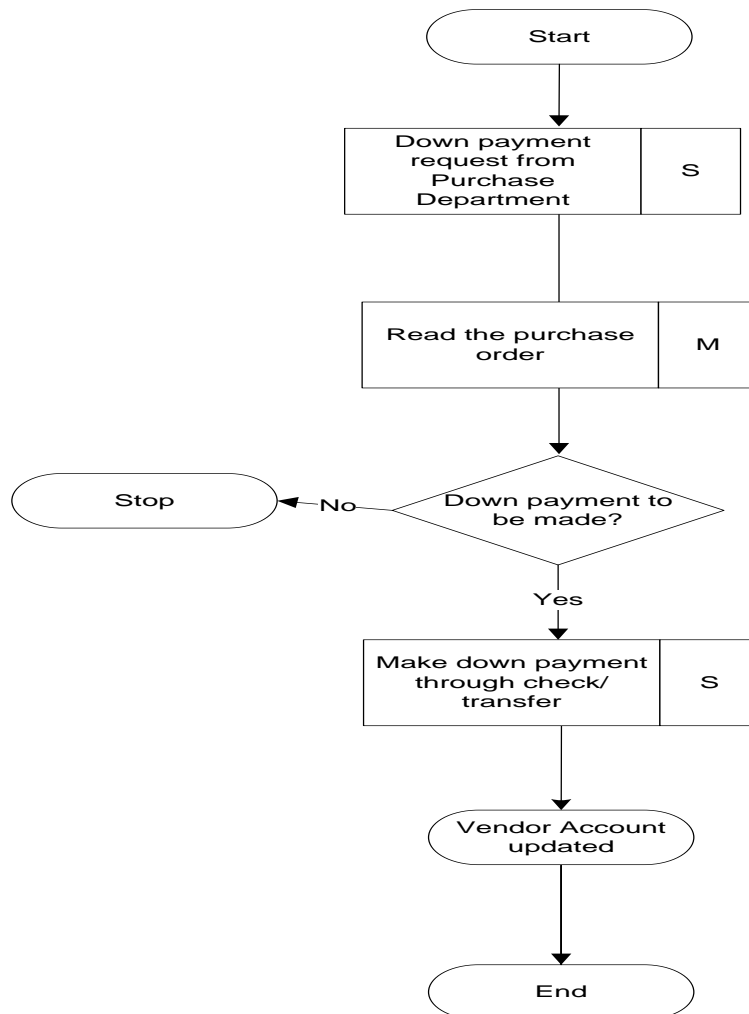
Flow diagram for vendor down payment

Vendor Payment Process

ABC has to make payments to vendors during their course of transactions, vendors invoice due date is checked and if it is due, then the payment process begins. Prior to making any payment, down payments, if any are to be checked and cleared against the invoices. Payment can be made then.

The payment can be full payment or part payment or residual payment. In case of full payment, the system clears the open item. In case of part payment, the open item is not cleared and has to be cleared manually subsequently, when the entire amount is paid. In case of residual payment, the original invoice is cleared and the balance amount is created as fresh open item.

Availability of the funds is checked before making the payment. In case funds are not available, after making the funds available, the payment has to be made.

Payments can be through automatic payment program or through post plus print option transaction. In case of automatic payment program, the parameters have to be entered and the system prints the checks for all the vendors who are due as per specified parameters. In both cases, the checks are printed.

In case of post plus print option, the individual vendor has to be selected and payments are to be made by selecting the required open items.

```
                          ┌──────────┐
                          │  Start   │
                          └────┬─────┘
                               │
                               ▼
                     ┌──────────────────┬───┐
                     │ Check the vendor │ S │
                     │    due list      │   │
                     └────────┬─────────┴───┘
                              │
                              ▼
  ┌────────┐          ◇ Payment due? ◇
  │  Stop  │◄── No ──◇               ◇
  └────────┘          ◇             ◇
                              │
                             Yes
                              │
                              ▼
 ┌──────────┬───┐     ◇ Funds exist? ◇
 │ Wait for │ M │◄─No─◇              ◇
 │  funds   │   │     ◇             ◇
 └──────────┴───┘
                              │
                             Yes
                              ▼
 ┌──────────┬───┐    ◇ Down payment ◇
 │ Clear the│ S │◄Yes◇   exists?    ◇
 │  down    │   │    ◇             ◇
 │ payment  │   │
 └──────────┴───┘
                              │
                             No
                              ▼
 ┌──────────┬───┐      ◇ Full Payment? ◇
 │   Part   │ S │◄─No─◇                ◇
 │ payment  │   │      ◇              ◇
 └──────────┴───┘
                              │
                             Yes
                              ▼
                     ┌──────────────────┐
                     │   Vendor Paid    │
                     │    Document      │
                     │    generated     │
                     └────────┬─────────┘
                              │
                              ▼
                          ┌───────┐
                          │  End  │
                          └───────┘
```
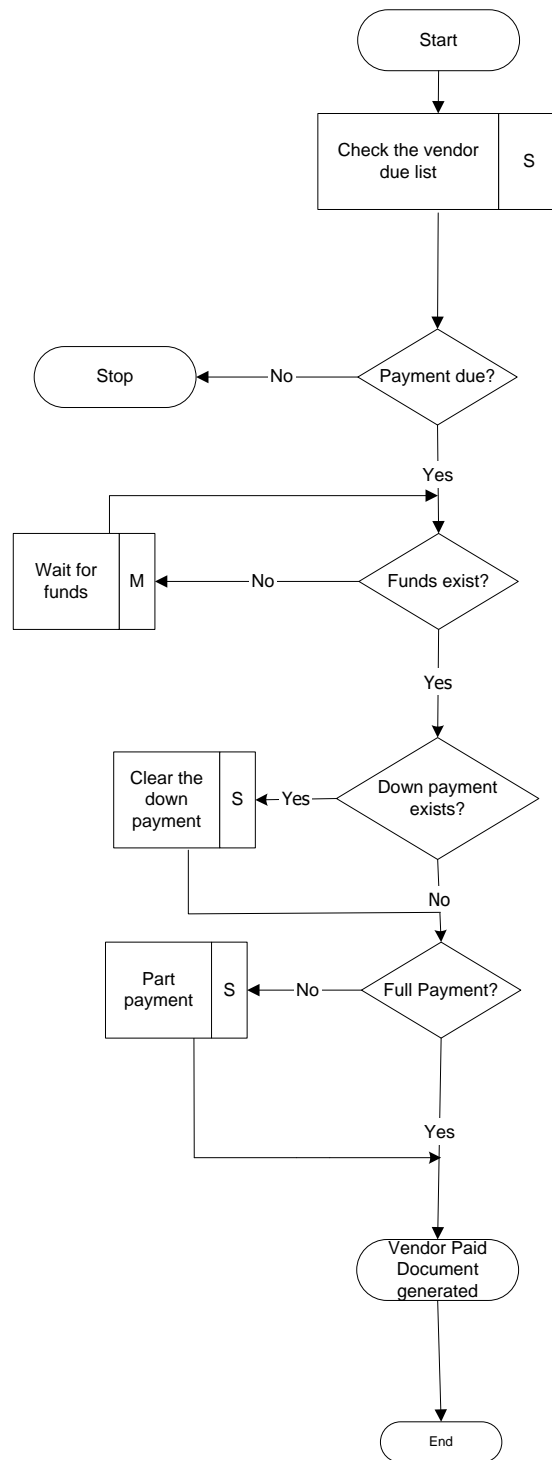
Flow diagram for vendor payment process

Vendor foreign payment Process

PO is raised in foreign currency and the GRIN / Invoice verification is carried at a certain accounting rate of Forex and vendor liability is created. Along with the vendor liability based on the customs exchange rate, , Freight and other applicable liabilities are created. The difference between the vendor liability and the actual payment based on the forward rate / Mark to market rate is accounted as Exchange Gain / Loss and vendor liability is adjusted accordingly. For foreign currency payments other than material related TDS is applicable as per the DTAA and the nature of transactions.

```
                              ┌─────────┐
                              │  Start  │
                              └────┬────┘
                                   │
                                   ▼
              No                ◇ Is foreign PO ◇
        ◄────────────────────── ◇  approved ?  ◇
        │                          │
        │                          │ Yes
        │                          ▼
        │         No       ┌──────────────────┬───┐
        │   ◄───────────── │ LC approved from │ M │
        │   │              │     banker       │   │
        │   │              └────────┬─────────┴───┘
        │   │                       │ Yes
        │   │                       ▼
        │   │              ┌──────────────────┬───┐
        │   └────────────► │  Book foreign    │ M │
        │                  │ currency to pay  │   │
        │                  │    on due date   │   │
        │                  └────────┬─────────┴───┘
        │                           │
        │                           ▼
        │                  ┌──────────────────┬───┐
        │                  │  Intimate import │ M │
        │                  │ details to banker│   │
        │                  └────────┬─────────┴───┘
        │                           │
        │                           ▼
        │                  ┌──────────────────┬───┐
        │                  │ Payment intimation│ M │
        │                  │   from banker    │   │
        │                  └────────┬─────────┴───┘
        │                           │
        │                           ▼
        │                  ┌──────────────────┬───┐
        │                  │   Post entries   │ S │
        │                  └────────┬─────────┴───┘
        │                           │
        │                           ▼
        │                       ┌───────┐
        └──────────────────────►│  End  │
                                └───────┘
```
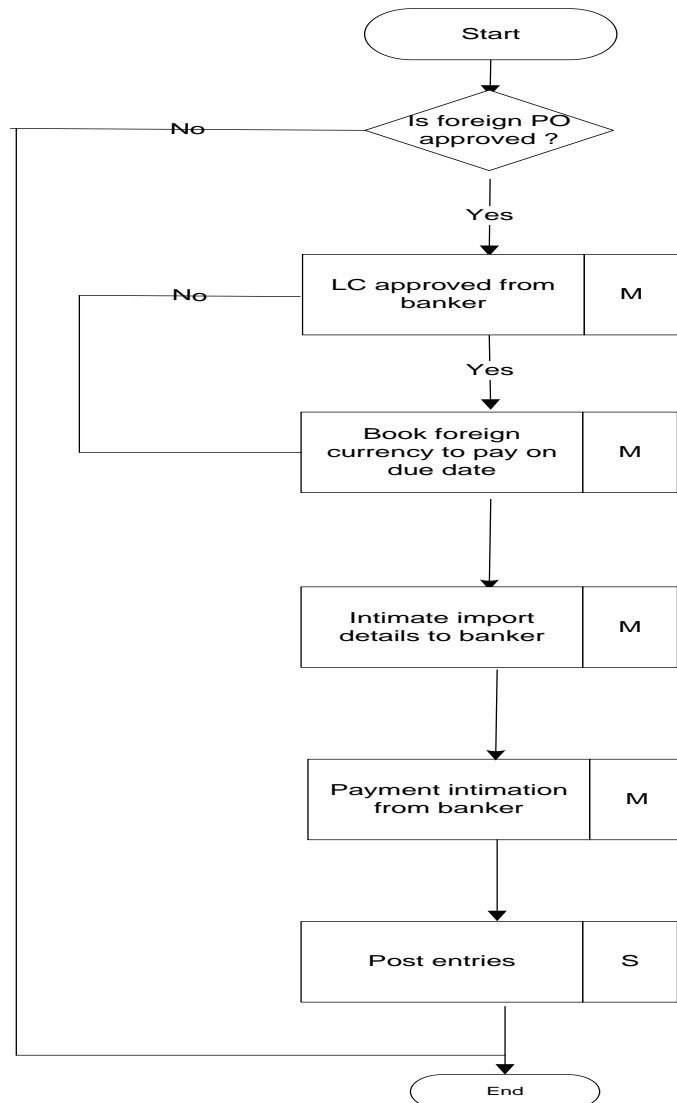
Flow diagram for vendor foreign payment process

TDS Procedure

TDS is deducted based on nature of transaction between the service provider and ABC. In general TDS will be deducted at the prevailing tax rates. In certain cases individual transactions may not fall in the applicable range but cumulatively during the year it may fall into the applicable range and thus even if we don't deduct in the first instance we have to deduct at a later date on a total value. Further based on the concessional certificates obtained by the service providers we have to apply different rates including zero. We have to file the quarterly e-returns and issue the required Form 16 and comply the statutory process.
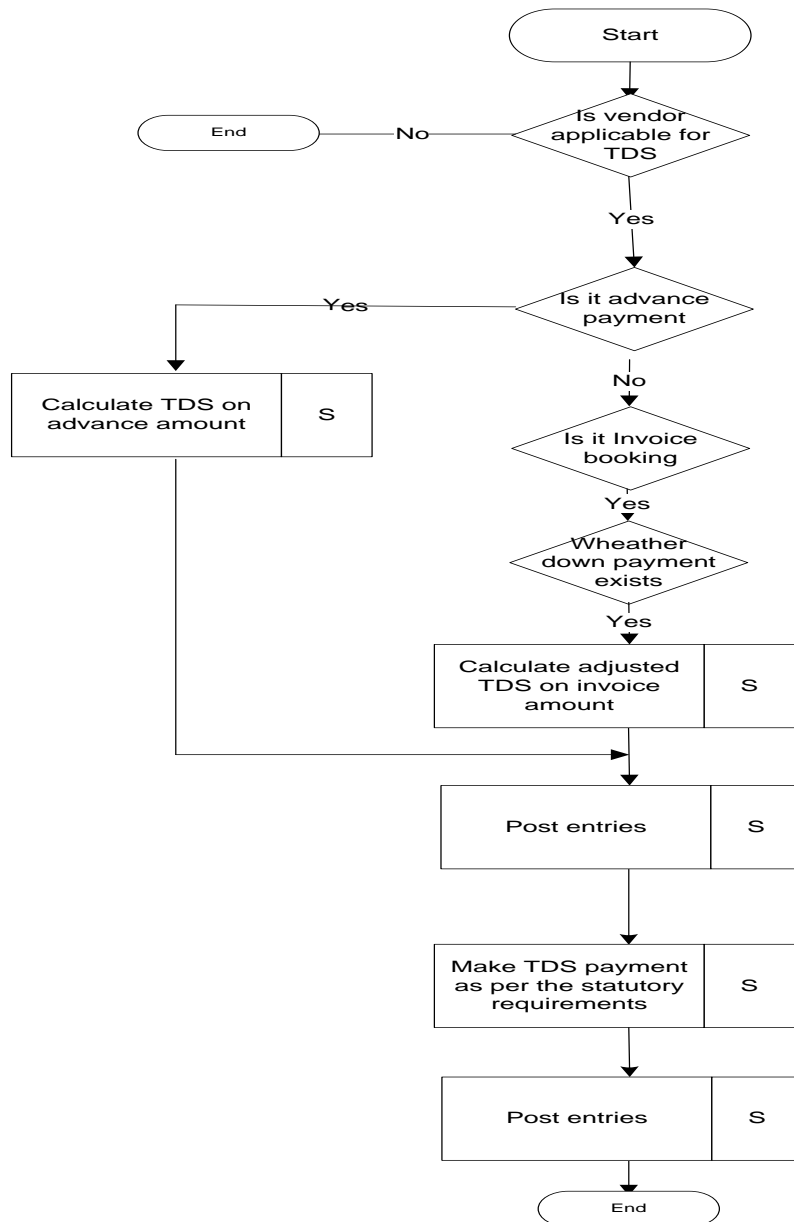
Flow diagram for TDS process

Sales Tax Payment Procedure:

Every month on due dates we check the payable amount from the ledger account (example CST payable for AP) and adjust the input tax credit available if any and make the net payment to the concern departments by passing necessary entries for adjustment and payments. The check is submitted to the department along with the monthly returns. Input tax credit is available for all the raw material procured with in the state and on capital goods based on the applicable laws. We have to file the VAT returns wherever applicable and GST returns in states like TN and UP. CST returns to be filed for all the states.

```
                              ┌──────────┐
                              │  Start   │
                              └────┬─────┘
                    ┌──────────────┴──────────────┐
                    │                             │
        ┌───────────────────────┬───┐   ┌─────────────────────┬───┐
        │ Generate reports for  │   │   │ Generate Reports for│   │
        │ input tax (restricting│ S │   │   LST and CST       │ S │
        │ to the actual sales)  │   │   │     payable         │   │
        └───────────┬───────────┴───┘   └──────────┬──────────┴───┘
                    │        ┌────────────────────┬───┐      │
                    └───────▶│ Post adjustment    │ S │◀─────┘
                             │ entries            │   │
                             └─────────┬──────────┴───┘
                             ┌─────────────────────┬───┐
                             │ Make Sales Tax      │   │
                             │ payments/Returns    │ S │
                             │ (net liability) as per│ │
                             │ the statutory       │   │
                             │ requirements        │   │
                             └─────────┬───────────┴───┘
                              ┌────────┴─────┐
                              │     End      │
                              └──────────────┘
```
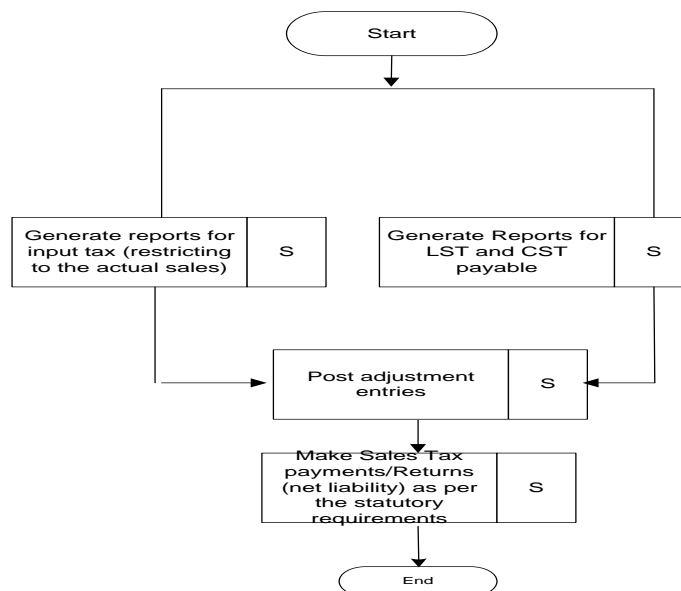
Flow diagram for Sales Tax process

Service Tax payment procedure:

We have service tax liability on certain services. Based on the services provided by the company Invoices are generated with applicable service tax from the FI Module. The entire liability is to be

captured and adjusted against the service tax credit available and the net payment is to be made and the returns are filed.

```
                              ┌─────────┐
                              │  Start  │
                              └─────────┘
                                   │
         ┌─────────────────────────┼─────────────────────────┐
         │                                                    │
┌──────────────────────┬───┐              ┌──────────────────────┬───┐
│ Generate reports for │ S │              │ Generate Reports for │ S │
│    input tax if any  │   │              │  service tax liability│   │
│                      │   │              │     nature wise      │   │
└──────────────────────┴───┘              └──────────────────────┴───┘
         │                                                    │
         │              ┌──────────────────┬───┐              │
         └─────────────▶│ Post adjustment  │ S │◀─────────────┘
                        │  entries if nay  │   │
                        └──────────────────┴───┘
                                   │
                        ┌──────────────────┬───┐
                        │  Service Tax     │ S │
                        │ payments/Returns │   │
                        │ nature wise as per│  │
                        │  the statutory   │   │
                        │  requirements    │   │
                        └──────────────────┴───┘
                                   │
                              ┌─────────┐
                              │   End   │
                              └─────────┘
```
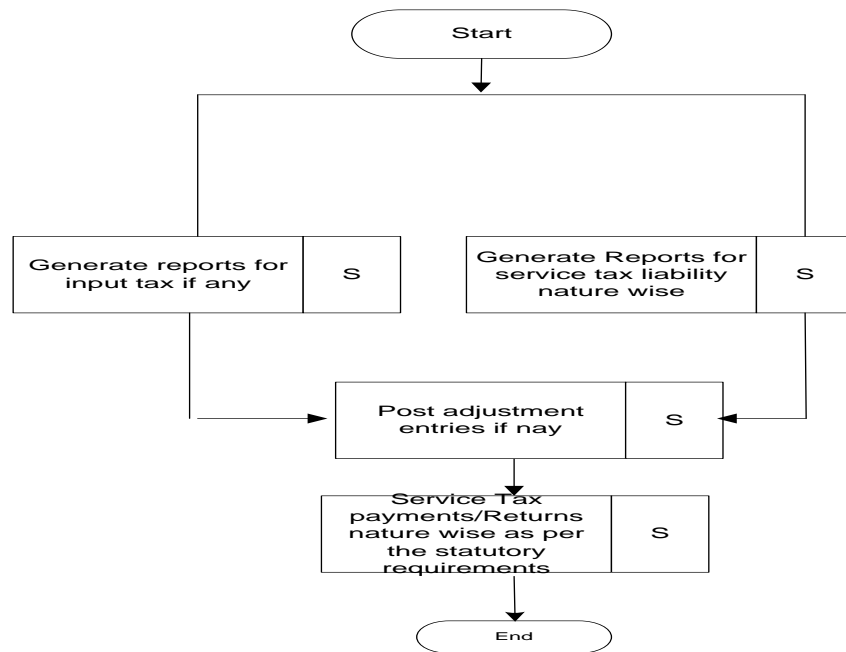
Flow diagram for Service Tax process

Park and Post Customer Invoice

ABC requires recording of customer invoice transactions. This application component is required for entering customer invoices that arise in the accounts receivable module of financial

accounting. The invoice is raised in accounts receivable module itself.

Document entry clerk will enter the invoice and parks the invoice. The parked invoice is checked by accountant and if he is authorized, he will complete the document and posts it. In case, he is not authorized, then he will complete the document and his superior will post the document.
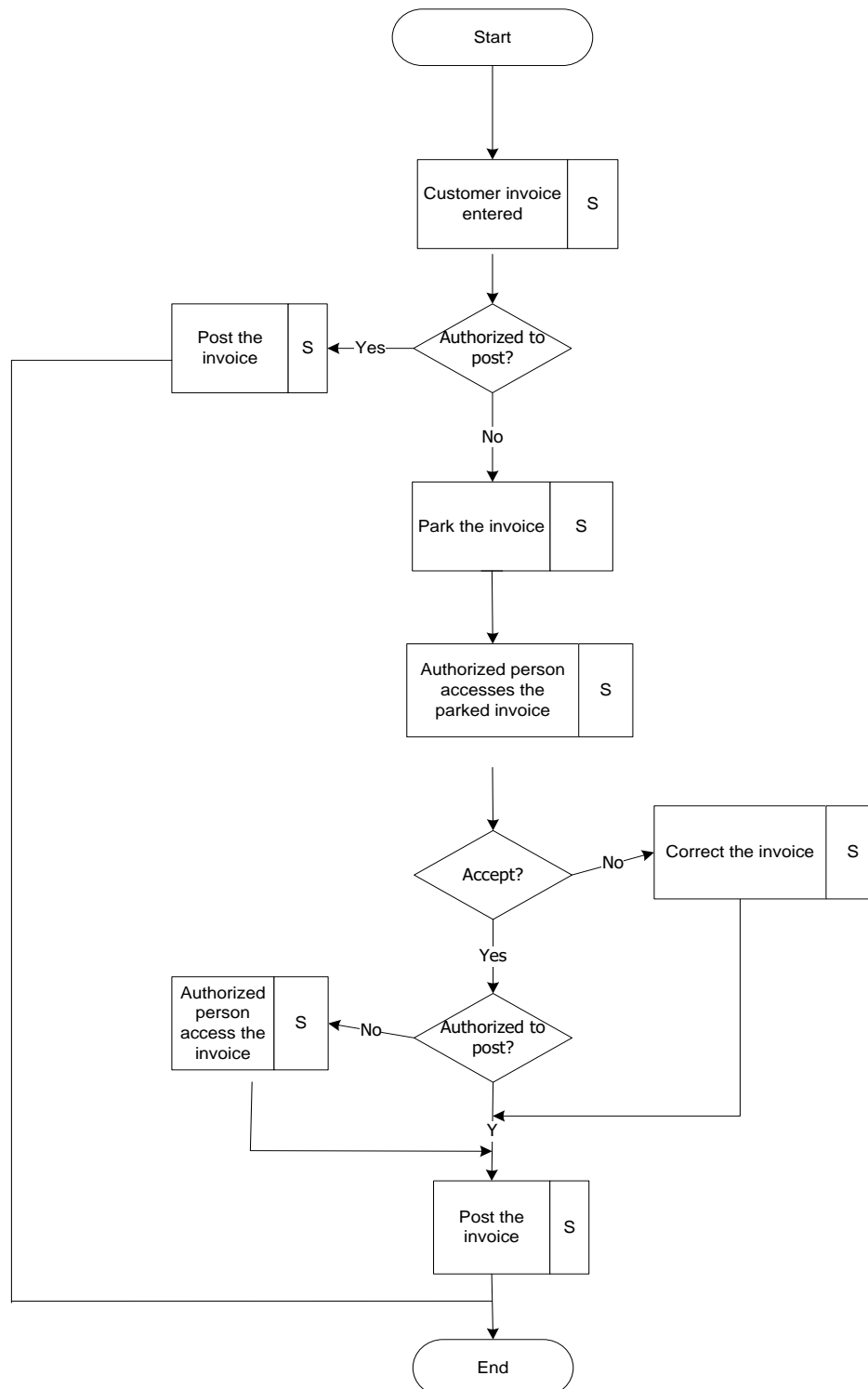
Flow diagram for customer invoice parking and posting

Customer Incoming Payment Process (Regular/Advance/Adhoc)

ABC receives money from customers. After the receipt of payment, down payments, if any are

to be checked and cleared against the invoices. The payments are adjusted against the specific invoices. The payments can be part payments or full payments. Some times, they are residual payments also.

For example an invoice is for INR 10000. If the payment is received for INR 5000 then it can be made as residual payment, so that the original invoice is cleared and the remaining balance INR 5000 is only displayed as outstanding.

In case if we treat the payment as part payment, than the system will show Invoice amount (INR 10000) & partial receipt (INR 5000) against the invoice both as open items? If customer pays down payment to ABC, then the system shows the payment as down payment in customer ledger.

When ever we receive one more payment, we have to make sure that down payment paid earlier has to be knocked of against bills if the customer had provided the details later or bills have to be knocked off on FIFO Basis.

```
                    ┌──────────┐
                    │  Start   │
                    └──────────┘
                          │
                          ▼
                ┌──────────────┬───┐
                │  Payment     │   │
                │ received from│ M │
                │  customer    │   │
                └──────────────┴───┘
                          │
                          ▼
          No          ◇──────────◇
    ◄─────────────────   Down Payment
                        │   exists?   │
                         ◇──────────◇
                              │
                             Yes
                              │
                              ▼
                    ┌──────────────┬───┐
                    │ Clear the down│   │
                    │   payment     │ S │
                    └──────────────┴───┘
                              │
                              ▼
      ◇──────────◇    No   ◇──────────◇
   No │ Part Payment?│◄──────  Full Payment?
 ◄────  ◇──────────◇        ◇──────────◇
  │          │                   │
  │          Y                  Yes
  │          │                   │
  │          ▼                   ▼
  │   ┌──────────┬───┐    ┌──────────┬───┐
  │   │Enter     │   │    │Enter     │   │
  │   │payment   │ S │    │payment   │ S │
  │   └──────────┴───┘    └──────────┴───┘
  ▼                             │
┌──────────────┬───┐            │
│Enter residual│   │            │
│  payment     │ S │            │
└──────────────┴───┘            │
       │                        │
       └────────────┬───────────┤
                    │           │
                    └───────────┤
                                ▼
                    ╭───────────────────╮
                    │    Payment        │
                    │ Document Posted   │
                    ╰───────────────────╯
                              │
                              ▼
                    ┌──────────────┐
                    │     End      │
                    └──────────────┘
```
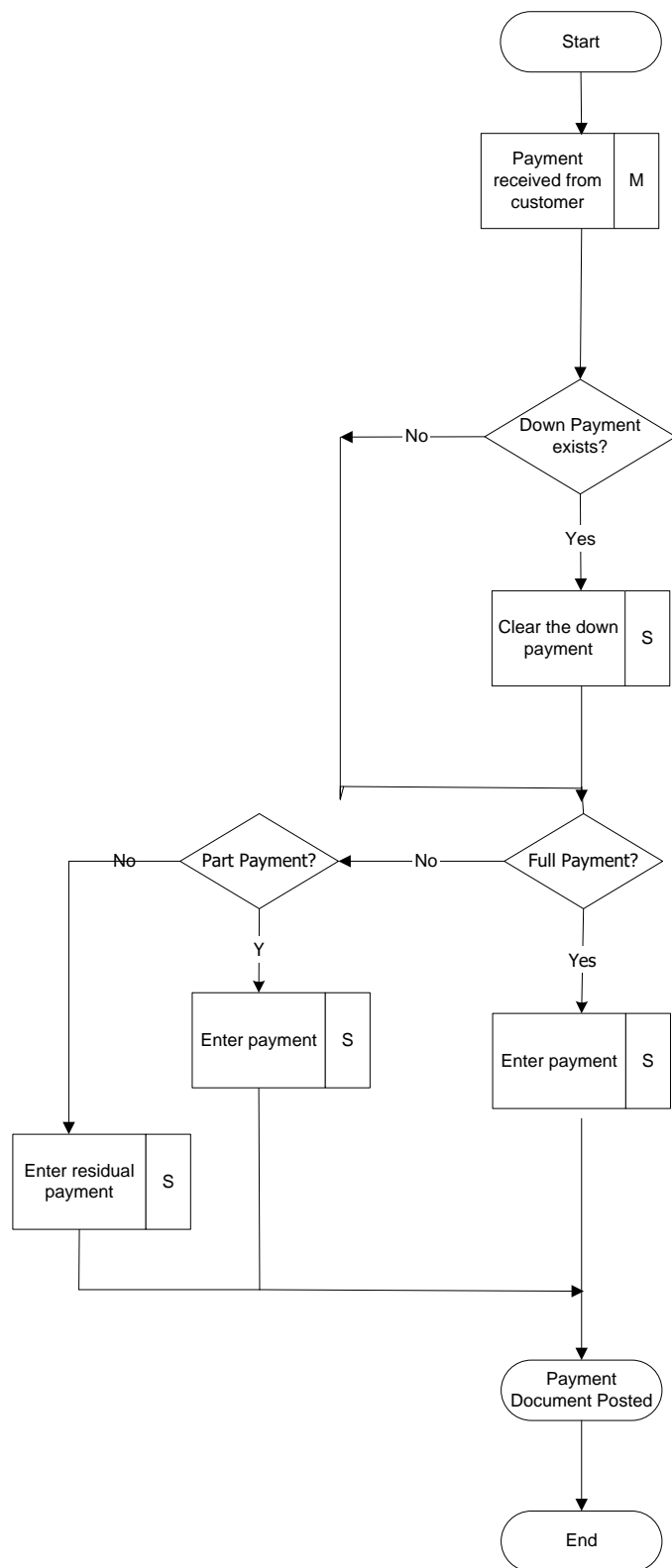
Flow diagram for customer incoming payment process

Bank reconciliation

Bank reconciliation can be done manually or through electronically. In manual bank reconciliation, the hard copy of the bank statement is received and all the entries are entered manually in the system. Then, in the system postings are made. If any corrections are to be made after this step, post processing is to be made for correction of the entries in the system.

In case of electronic bank statement, the soft copy of the bank statement is received in Swift / Excel format. This is uploaded in to the system and reconciliation entries are posted. If still errors exist, then post processing is to be made for correction of the entries in the system.
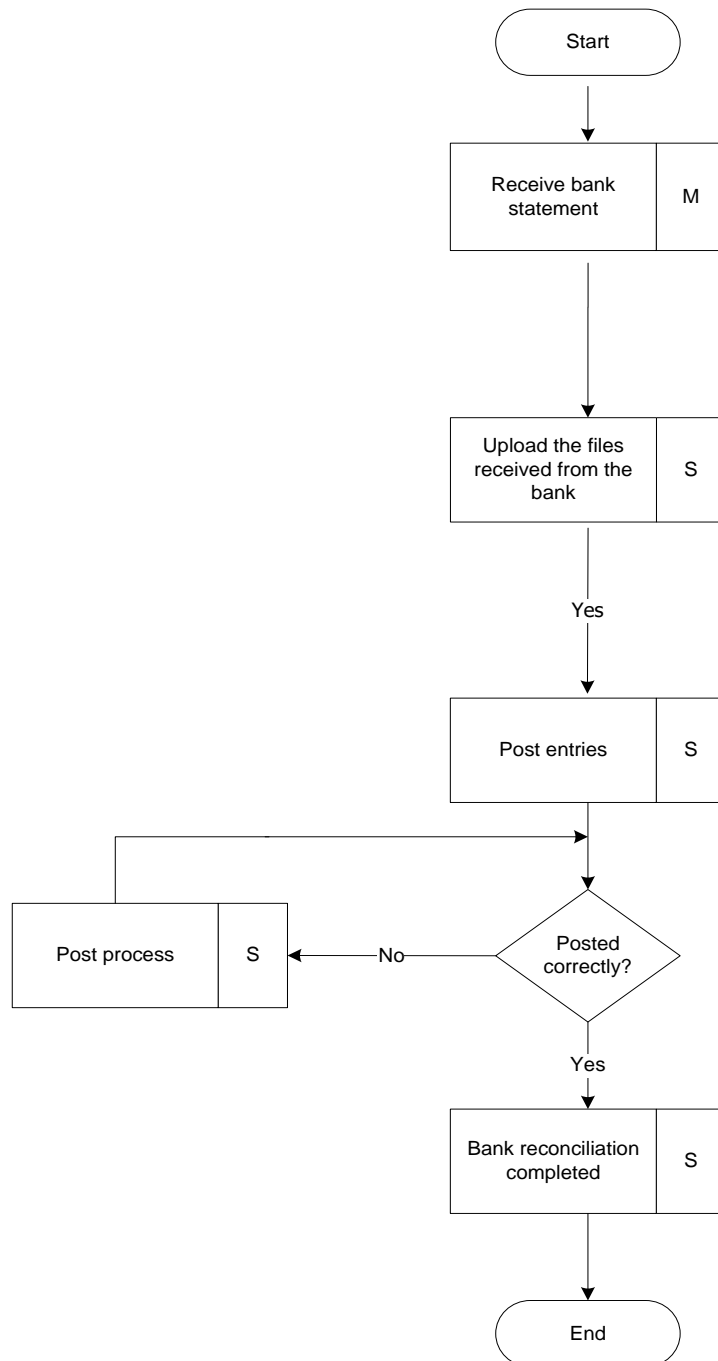
Flow diagram for bank reconciliation

Customer incoming payment process (Direct deposit into bank)

Collections received from customers in two ways. The first one is cheque or draft directly received from customer and deposited into Bank. Second one is Customer directly depositing into our specified bank account. Further entries are to be updated based on the CMS reports and the RTGS / E-net receipts.
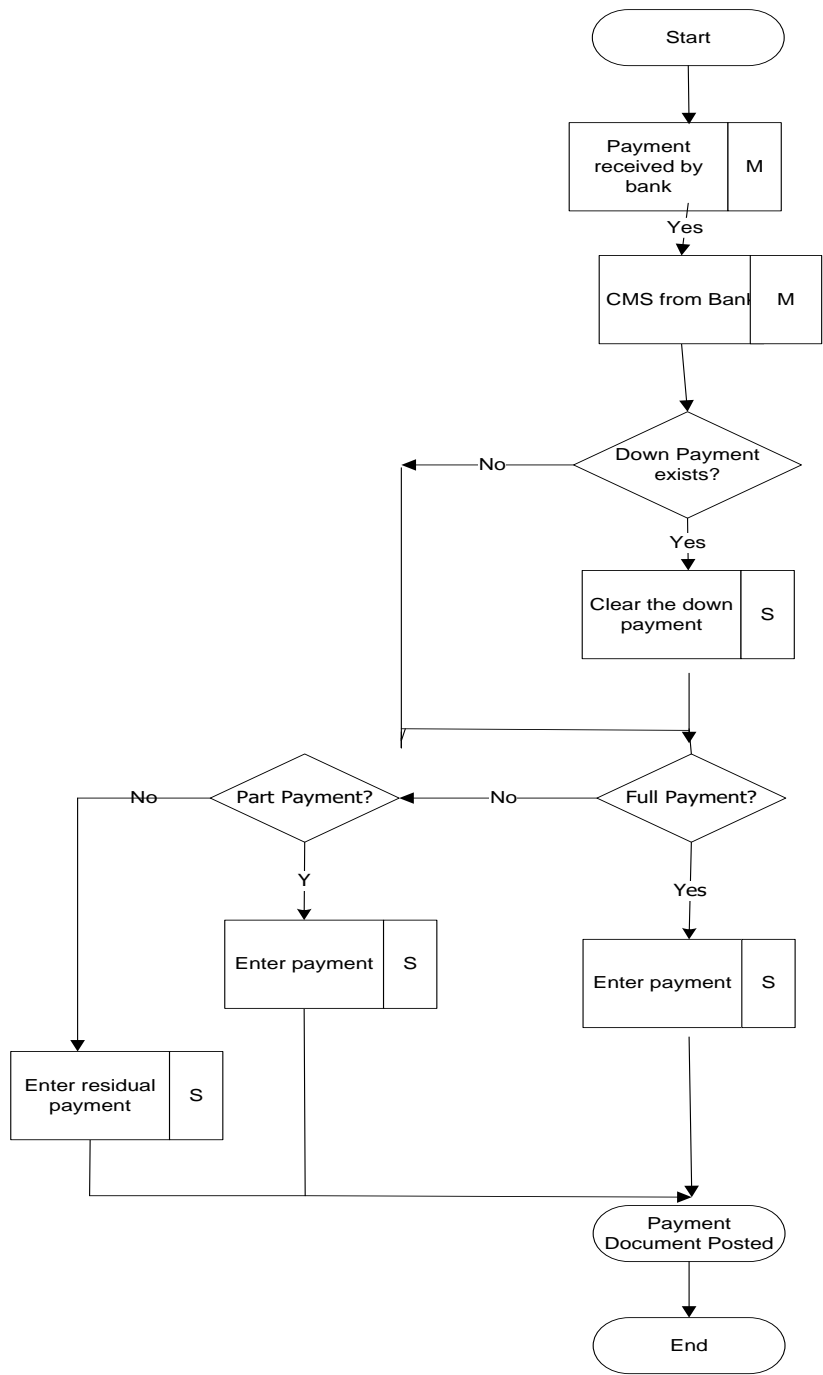
Flow diagram for customer incoming payment process (direct deposit into bank)

Cheque dishonor process

We will receive dishonor intimation from the bank. Depends on customer we will debit the charges to customer account. While the cheque dishonor entry is passed it should reverse (in a way) the original receipt entry for the aging purpose.

```
                    ┌──────────────┐
                    │    Start     │
                    └──────┬───────┘
                           │
                           ▼
              ┌────────────────────┬─────┐
              │ Intimation from bank│  M  │
              └─────────┬───────────┴─────┘
                        │
                        ▼
              ┌────────────────────┬─────┐
              │ Reversal of Entriy  │  S  │
              └─────────┬───────────┴─────┘
                        │
                        ▼
                   ◇ Bank Charges ? ◇──── No ───┐
                        │                        │
                       Yes                       │
                        ▼                        │
              ┌──────────────┬─────┐             │
              │ Post entries │  S  │             │
              └──────┬───────┴─────┘             │
                     │◄───────────────────────────┘
                     ▼
              ┌────────────────────┬─────┐
              │ Intimate to customer│  M  │
              └─────────┬───────────┴─────┘
                        │
                        ▼
                 ┌──────────────┐
                 │     End      │
                 └──────────────┘
```
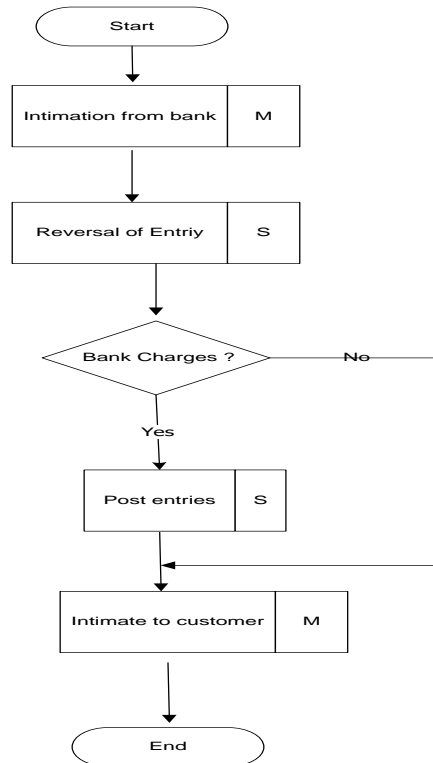
Flow diagram for cheque dishonor process

Cash Journal (Petty cash)

We will maintain petty cash at branch/region level. We will receive expenses statements weekly/fortnightly at Head office for approval and will be entered at Head offices.

```
                          ( Start )
                             |
                             v
                  +----------------+---+
                  | Request for funds| M |
                  +----------------+---+
                             |
                             v
          Yes <----------< Approved >
                             |
                             | No
                             v
                  +----------------+---+
                  | Req for exp    | M |
                  | statements     |   |
                  +----------------+---+
                             |
                            Yes
                             v
          Yes <----------< Approved >----------No----+
                             |                        |
                                                      v
                                          +----------------+---+
                                          | Correct entries | S |
                                          +----------------+---+
           +----------------+---+
           | Post into Syatem | S |
           +----------------+---+
                  |
                 Yes
                  v
           +----------------+---+
           | Deposit in Bank  | M |
           +----------------+---+
                  |
                  v
               ( End )
```
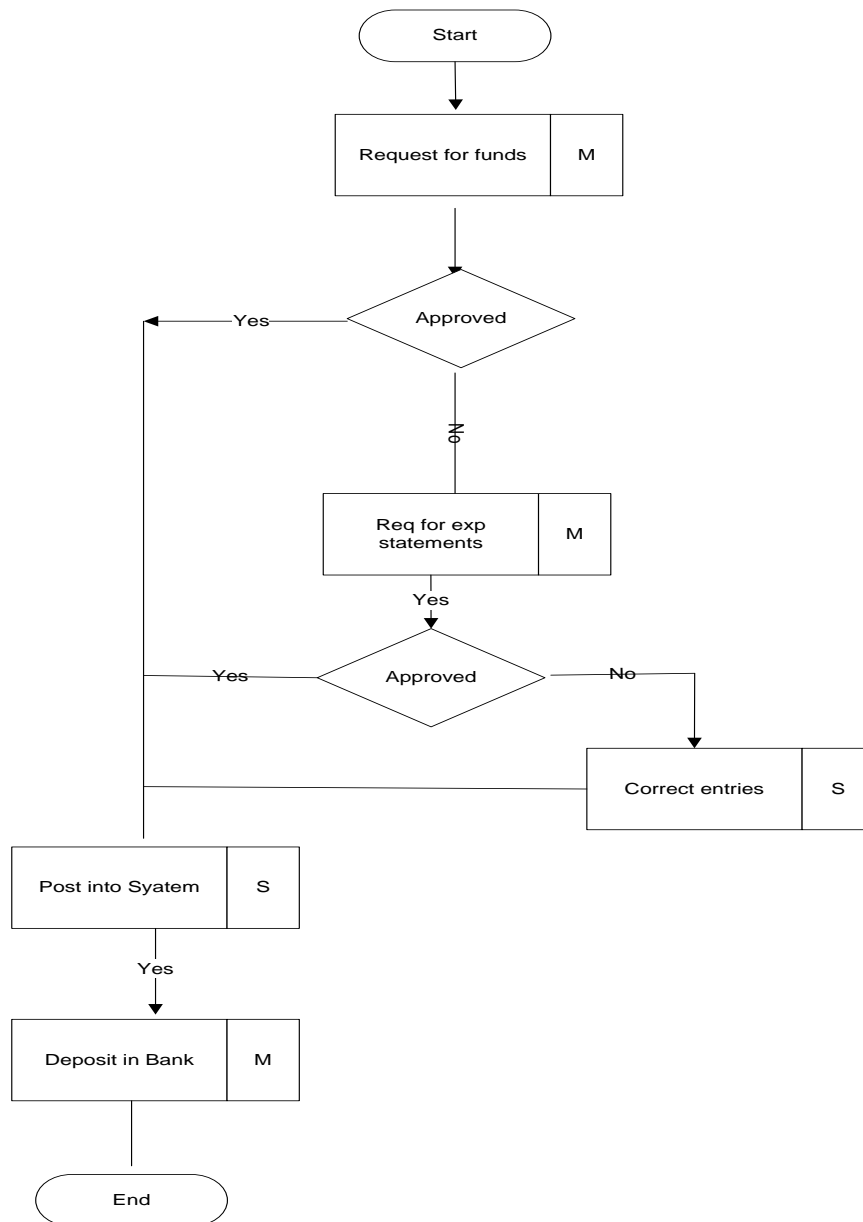
Flow diagram for cash Journal (Petty Cash)

Cash Imprest procedure

We will give imprest amounts to employees as advance for expenses. As and when they submit expense bills, those will be posted in the system.
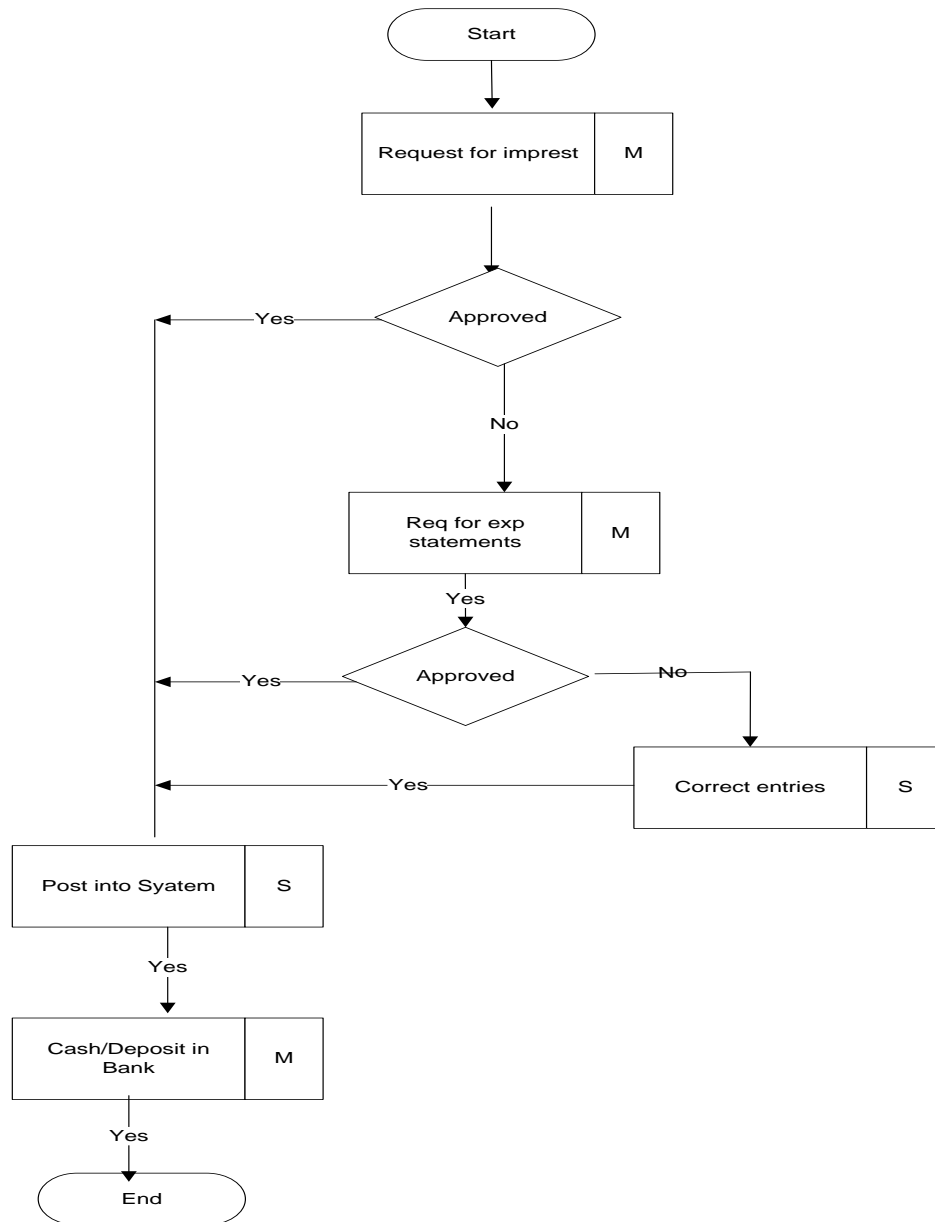
Flow diagram for cash imprested

Bills of Exchange procedure

We will receive Bills of Exchange documents from customers. At present we are not discounting with bankers. In future we may go for bill discounting. The limit for the customer shall be equivalent to the Letter of credit, in case of BEs against L/C. Date of submission of the bills of exchange to the bank and the credit received from the bank to be capture in the system (like cheque deposit date and cleared date). Bank charges to be captured and accounted accordingly.

```
                              ┌──────────┐
                              │  Start   │
                              └────┬─────┘
                                   │
                         ┌──────────────────┬─────┐
                         │ Be from customer │  M  │
                         └──────────┬───────┴─────┘
                                    │
         Yes              ◇ Discounting ? ◇              No
      ┌─────────────────── ◇         ◇ ───────────────────┐
      │                                                   │
      │                            ┌──────────────────┬─────┐
      │            ◄───────────────│ Hold till due date│  M  │
      │                            └──────────────────┴─────┘
 ┌──────────────┬─────┐
 │ Submission of │  M  │
 │  documents    │     │
 └──────┬───────┴─────┘
        │ Yes
 ┌──────────────┬─────┐
 │ Posting entries│  S  │
 └──────┬───────┴─────┘
        │
   ◇ Collected by Bank ◇ ──── No ──────────┐
        │ Yes                              │
 ┌──────────────┬─────┐          ┌──────────────┬─────┐
 │ Post entries  │  S  │          │ Postt entries │  S  │
 └──────┬───────┴─────┘          └──────┬───────┴─────┘
        │ ◄──────────────────────────────┘
  ┌──────────┐
  │   End    │
  └──────────┘
```
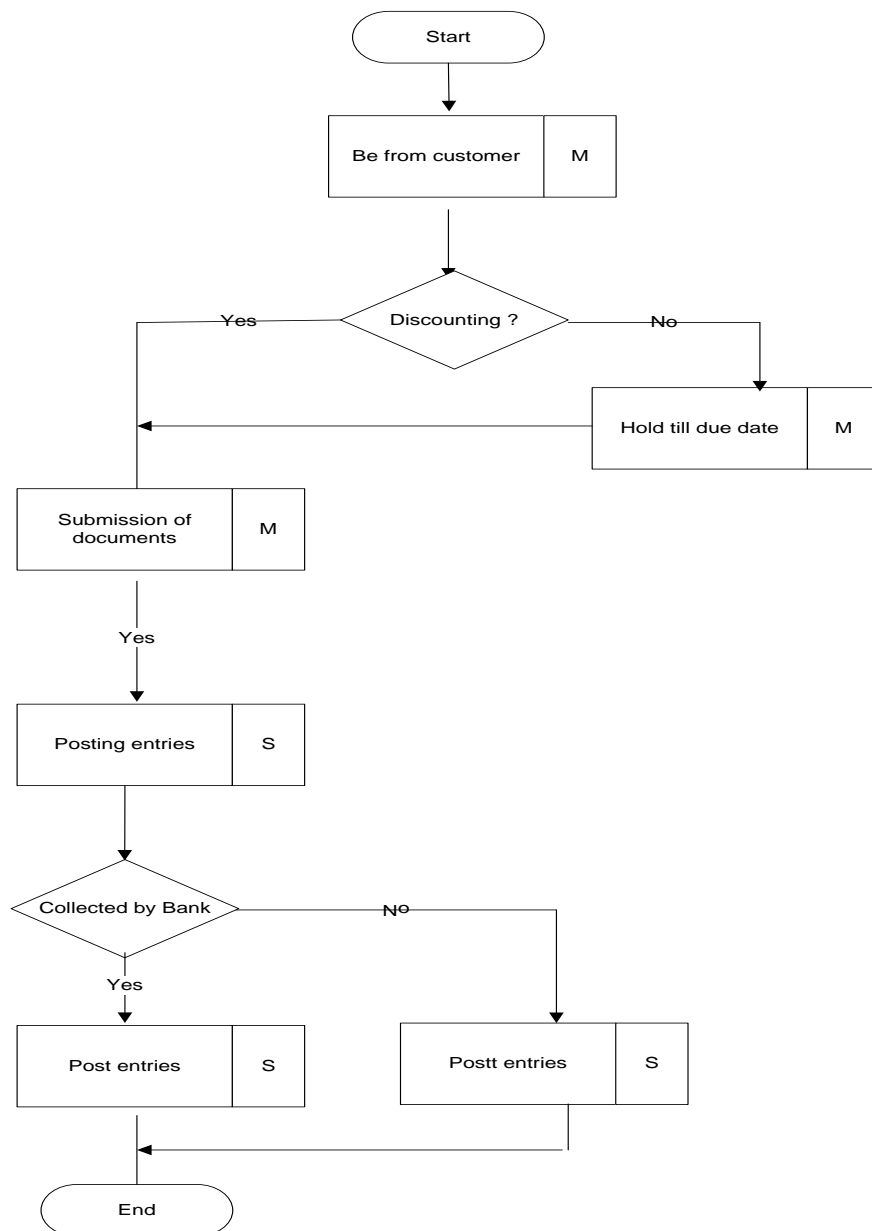
Flow diagram for Bills of Exchange

FX bookings and Hedging products for currency and commodity and treatment of Hedging Gain/Loss

ABC has Hardware & Software imports and Software exports thus have an exposure for the price fluctuations (procurement vs. sale price linked to the international CP price) and exchange fluctuations. Thus deal with the forex hedging. Hedging operations for forex mainly depend upon simple SWAPs and at time go for the options depending upon the market fluctuations.

As per the Indian GAAP, the difference on account of forex forward booking (actual liability and remittance) and the liability / Asset created through the Purchase / Sale has to be accounted as Exchange gain / loss.

Any gain/loss, if accounted for in SAP, will affect the entire stock of material available as on the date of admission of gain/loss but this will not apportion the gain/loss only on the quantity on which this transaction has occurred. The process of Hedging will be explained to capture the same in the system for future reference and posting the necessary entries linking the hedging products opted by the company.

```
                        ┌─────────────┐
                        │    Start    │
                        └──────┬──────┘
                               │
                               ▼
                          ╱─────────╲
        No ◄──────────── ◄ Is Strike price < ►──No──┐
        │                ╲  agreed price  ╱         │
        │                  ╲─────┬─────╱            │
        │                        │Yes               ▼
        │                        │              ╱─────────╲
        │                        │             ◄ Is Strike price > ►
        │                        │              ╲  agreed price  ╱
        │                        │                ╲─────┬─────╱
        │              ┌──────────────┬───┐             │
        │              │ Calculate Gain│ S │            ▼
        │              └──────┬───────┴───┘     ┌──────────────┬───┐
        │                     │                 │ Calculate Loss│ M │
        │                     │                 └──────┬───────┴───┘
        │                     │◄───────────────────────┘
        │                     ▼
        │                ╱─────────╲
        │◄──────No───── ◄ Is it approved ? ►
        │                ╲─────┬─────╱
        │                      │Yes
        │                      ▼
        │                 ╱─────────╲
        │                ◄ Is stock available ►──No──┐
        │                 ╲─────┬─────╱              │
        │                       │Yes                 ▼
        │              ┌──────────────┬───┐  ┌──────────────┬───┐
        │              │Revaluate stock│ S │  │Post to PRD account│ S │
        │              │aproportionately│   │  └──────┬───────┴───┘
        │              └──────┬───────┴───┘         │
        │                     │                      │
        │                     └──────────┬───────────┘
        │                                │
        └────────────────────────────────┤
                                         ▼
                                  ┌─────────────┐
                                  │     End     │
                                  └─────────────┘
```
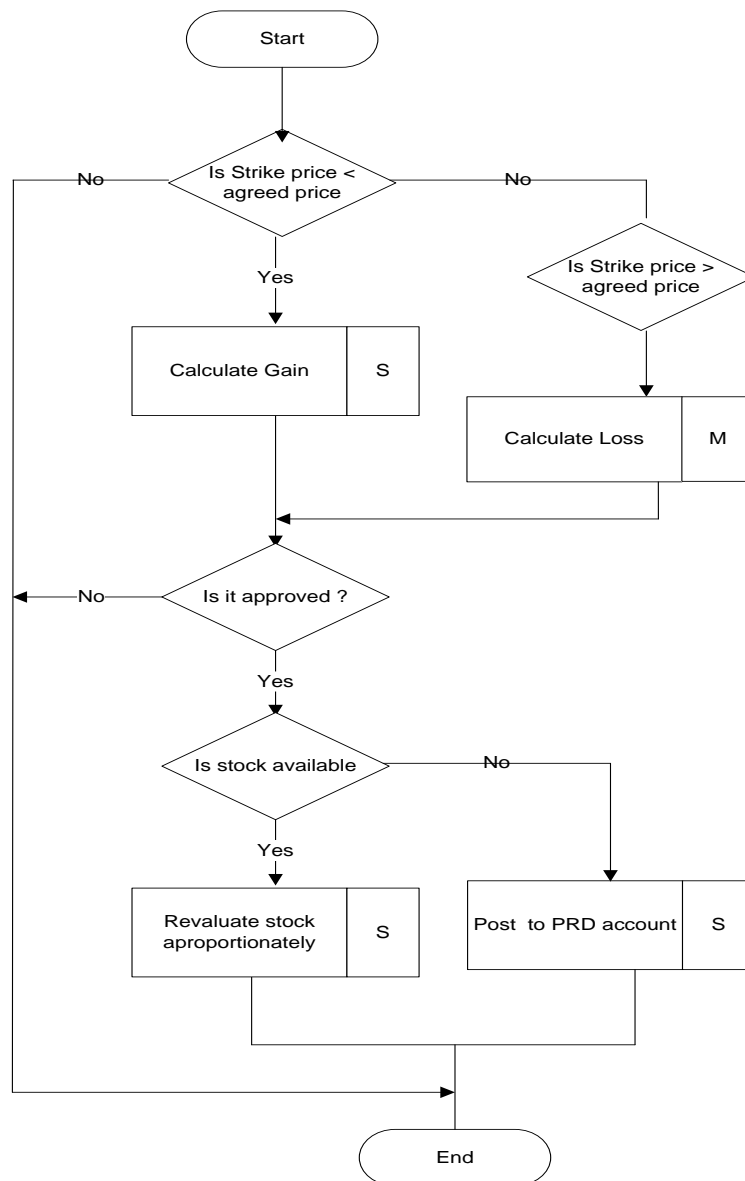
Flow diagram for Hedging Gain/Loss process

Debit/Credit notes

In case of Expenses to be reimbursed from the customers, company has to raise Debit Notes on the Customers. The same way any excess billing made will be adjusted by raising Credit Notes on the Customers

Inter Company transaction- ABC & WASL

- Inter company purchase and sale transactions are handled as any other sale/purchase transaction.

Each company will be a normal customer/vendor in the other company.

- Advances in the nature of down payments against the normal sale/purchase will be handled in the same vendor/customer account that is created for inter company transactions as above.

- Advances in the nature of loan and other non sale/purchase transactions shall be handled separately in different GL accounts (inter company accounts)

- Inter company balances for sale/purchase transactions can be had from standard vendor/customer reports available.

- Balances in advance accounts (non sale/purchase) will remain as such unless they are knocked off by passing a manual entry transferring the balance to the inter company vendor/customer account. The system cannot prompt for transfer of any such balances.

- Postings only within CO are not possible (throughput charges for recognizing expense at one cost center and income at other center). We need to post a JV for the said charges and then transfer the same to the respective cost/profit centers.

- Financial statements can be drawn up individually for each of the company codes and the same can be exported into an excel sheet and all inter company eliminations can be done at this stage.

PO in Foreign currency and payment at different exchange rates

Procurement of Import Materials and rising of PO in Foreign currency and payment at differential exchange rate

In case of Import materials, Purchase orders will be processed and sent to the selected vendor with all terms and conditions. First we have to make invoice verification for Customs and paying the relevant duties. Then capturing excise invoice & posting the excise invoice will be performed.

Vendor payment will be processed with reference invoice by Financial Accounting. The exchange rate can be manually fed at the time of making the Invoice.

All import purchase orders are to be raised in foreign currency (USD or EUR) but the transactions are to be recorded in INR. Once the PO is raised, the finance department will book a forward contract for the remittance (in USD or EUR) to be made against the purchases. The PO order quantity has been covered by a forward contract and hence the exchange rate if fixed.

Fixed Deposits with Banks

Treasury operations – Making/Breaking/Maturity of Fixed Deposits/Investments

The company operates fixed deposits of various values with several banks and this is used as a lien while establishing Bank guarantees, for meeting the scheduled import payments or such other bank instruments. At any given point of time, ABC will have about 3-4 deposits with various banks and about 350-400 deposits in a year. Though the deposits made for a fixed period with a defined maturity date these will be broken based on the business needs. Since ABC does not have a process of recognizing revenue on account of automatic interest accrual on the FD's, the system need not be configured for calculation of interest on deposits automatically. However, ABC has requested for a system to track all the deposits that are lying with various banks and they would also like to have information regarding the date of maturity, interest rate applicable, duration of FD, FD instrument number.

As on the date of maturity, a manual entry will be posted for recording the interest due on the deposit. Detailed report can be made available for tracking details of all the deposits held by the company with various banks with the additional field created and the interest earned on the said deposits and TDS deducted by the respective banks.

Bank Guarantees received/issued

 Whenever we receive a Bank guarantee, we post the same through a transaction which is used to record Bills of exchange. We would be recording all the BG's received and we would also be maintaining all the data relating to the BG received like details of customer, BG number date of BG expiry etc., and the system can give details of all the BG's received. On the date of expiry of the BG, we may either require to extend the validity of the BG, have a new BG in place of the existing one or can have the BG revoked all together. All these can be handled in the system. In case we need to invoke the BG, we can have transactions recorded for BG amount realization also.

The above procedure holds good even for the BG's that we issue to our vendors/ statutory authorities.

Tracking of Employee Costs

ABC wants to maintain details of all the employees for the advances taken and such other transactions which require an account of the employee. All transactions with the employee that are not handled in the HR module are transacted through this employee vendor account. This employee account will be created as a FI vendor (with a separate employee vendor account group) and all transactions per employee can be tracked.

Salary Payments by Bank Transfer

ABC settles the salaries payments through UTI bank where in all the employees of the company are holding the salary payments. At every month end a report will be generated for the net transfer of salaries to all the employees and send the instruction to UTI in Hard and soft copy along with the high value cheque to transfer the funds to the respective accounts. From the list for the net payment the regular input entry in the FI module will be made.

Excise Duty Payment Procedure

Excise duty liability is settled based on the available CENVAT credit (Raw materials / capital Goods) and the balance is met through PLA. At the end of the month the liability is first adjusted against the CENVAT credit and the balance is paid through the prescribed challan in PLA. System should generate the liability report for required PLA payment and pass the necessary month end adjustment as part of closing with proper authorization.

Procurement of Assets:

We have a CAPEX procedure in place for procurement of all capital items. Note for approval is floated with the necessary comparison and then a CAPEX no. is created which is the key for releasing the Purchase orders. Till the asset is capitalized the associated procurements are captured and assigned to the relevant AUC GL A/c before capitalizing the asset. CWIP would be ideally the sum of all the CAPEX related GL A/cs. This procedure is one and the same for all Capital Expenditure or any other one time procurement. Capex is approved based on authority levels

(financial and IRR parameters)

Capitalization or settlement of the asset happens after creating asset master from FI. However for low value assets which are acquired without PO, the same will be handled in FI.

```
                      ╭──────────────╮
                      │    Start     │
                      ╰──────┬───────╯
                             │
                    ┌────────────────┬─────┐
                    │ Receipt of note│     │
                    │  for approval  │  M  │
                    │ for procurement│     │
                    │   of assets    │     │
                    └────────┬───────┴─────┘
                             │
                          ◇ Advance ◇ ──── No ───────────┐
                          ◇payment ?◇                    │
                             │                           │
                            Yes                          │
                          ◇Vendor  ◇                     │
          ┌──── No ────────◇exists ?◇                    │
          │                  │                           │
  ┌───────────────┬───┐     Yes                          │
  │ Create one    │ S │      │                           │
  │ time vendor   │   │      │                           │
  └───────┬───────┴───┘      │                           │
          │                  │                           │
          └──────────┐       │                           │
                  ┌──────────────────┬─────┐             │
                  │  Post advance    │  S  │             │
                  │  payment entries │     │ ◄───────────┘
                  └────────┬─────────┴─────┘
                           │
                  ┌──────────────────┬─────┐
                  │ Verification of  │     │
                  │ invoices with the│  S  │
                  │ note for approval│     │
                  │Post invoice entry│     │
                  └────────┬─────────┴─────┘
                           │
                  ┌──────────────────┬─────┐
                  │  Post balance    │  S  │
                  │  payment entries │     │
                  └────────┬─────────┴─────┘
                           │
                      ╭──────────────╮
                      │    End       │
                      ╰──────────────╯
```
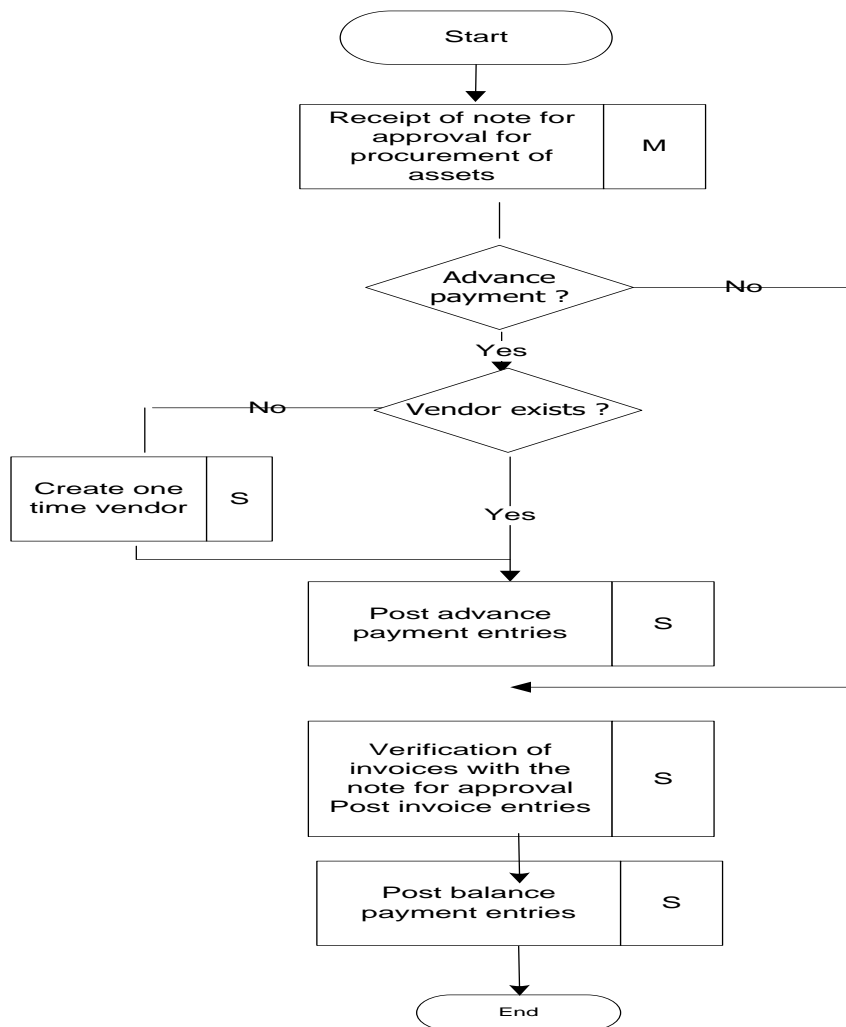
Flow diagram for Asset procurement process

Settlement of Assets Under Construction

During the construction phase, all the assets are initially booked to the assets under construction account (capital works in progress Account).After the completion of the construction and when the

assets are put to use the assets under construction need to be transferred to the assets account. This transfer of assets from assets under construction to the assets is known as settlement in SAP. Before making the settlement, it is to be clearly known, as to in which proportion the line items under assets under construction are to be settled to the assets. Basing on this, the distribution rules are defined and then assets can be settled.

```
                        ┌──────────┐
                        │  Start   │
                        └────┬─────┘
                             │
                             ▼
              ┌──────────────────┬──────┐
              │ Form C2 to be    │  M   │───No───▶ ┌──────────┐
              │ approved         │      │          │   End    │
              └──────────────────┴──────┘          └──────────┘
                             │
                            Yes
                             ▼
┌──────────────┬─────┐        ◇
│ Create Assets│  S  │◀──No── Relevant
│              │     │        Assets created?
└──────┬───────┴─────┘        ◇
       │                       │
       │                      Yes
       └──────────────────────▶│
                               ▼
┌──────────────┬─────┐         ◇
│ Define       │  S  │◀──No── Distribution
│ distribution │     │        rules defined?
│ rules        │     │        ◇
└──────┬───────┴─────┘         │
       │                      Yes
       └──────────────────────▶│
                               ▼
                    ┌──────────┬─────┐
                    │ Execute  │  S  │
                    │ Settlement│    │
                    └─────┬─────┴────┘
                          │
                          ▼
                   ┌─────────────┐
                   │Assets Settled│
                   └──────┬──────┘
                          │
                          ▼
                    ┌──────────┐
                    │   End    │
                    └──────────┘
```
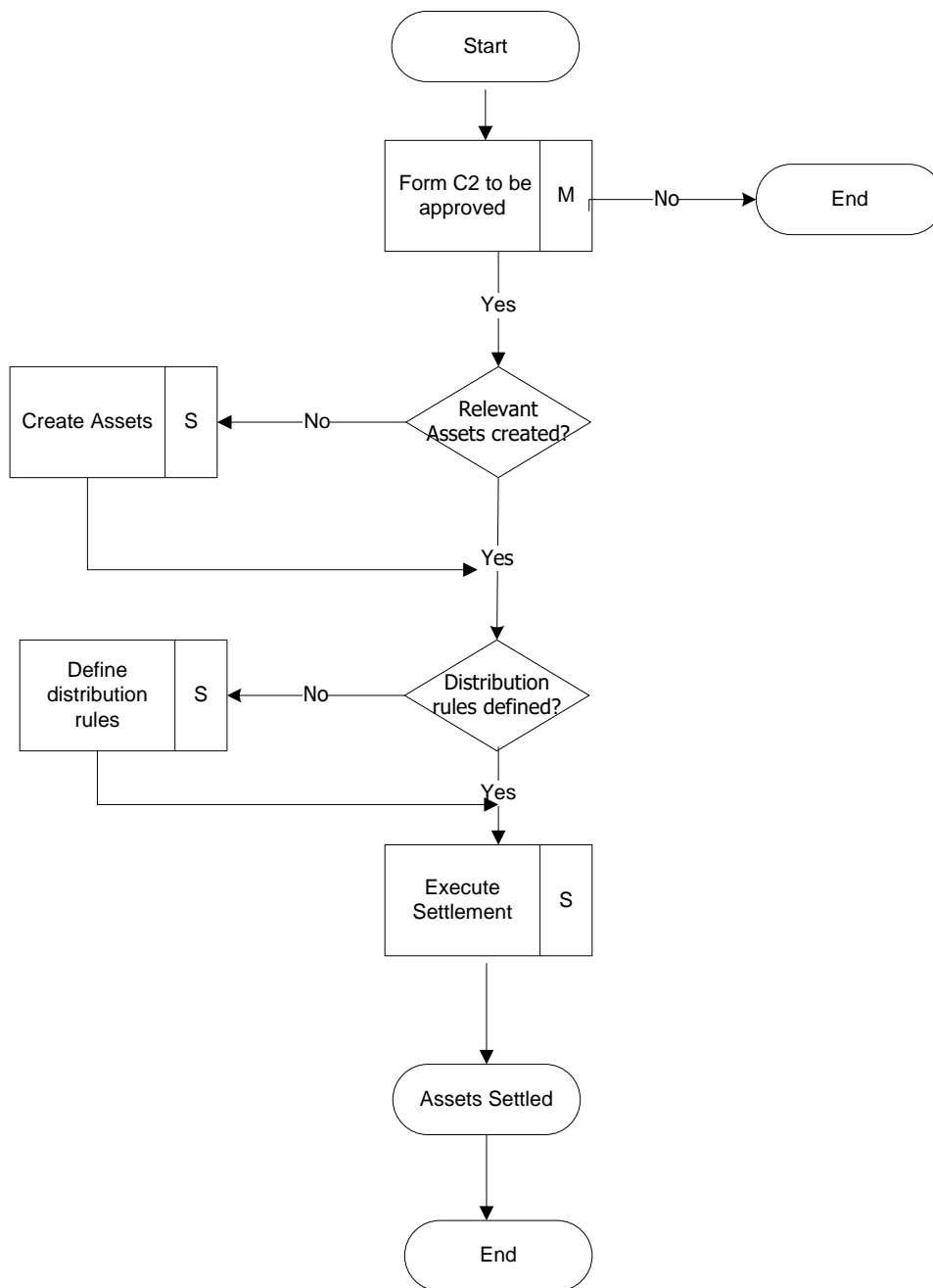
Flow diagram for settlement of assets under construction

Rentals on Leased Assets :

Based on the agreement with the customers which contains monthly rental charges, maintanance charges clause etc. We debit the customer's account for rentals from the date ofoccupation on a monthly / quarterly basis as per the agreement. It is understood that liability is accrued based on the invoices raised .
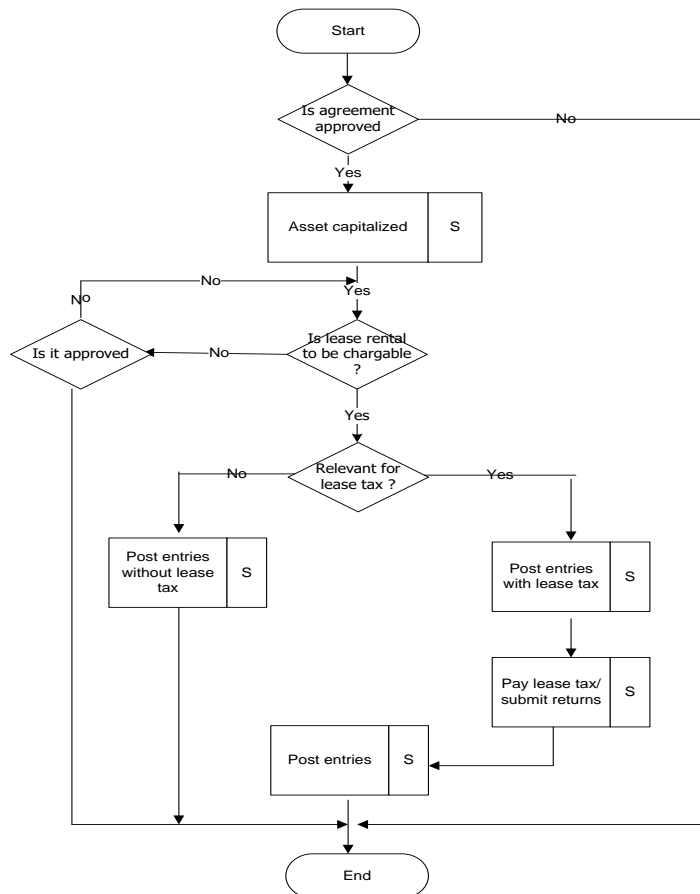
Flow diagram for rentals on leased assets

Retirement of Assets

Board resolution / Management approval is necessary for retirement of assets. Retirement can be through a customer, either with revenue or without revenue. It may be for net book value as well. The customer may / may not exist in the accounts receivable module.

In case of retirement with revenue, the profit or loss on sale of assets is recorded automatically by the system, even if it is partial or full retirement is made. The profit shall be recorded . In case of retirement with net book value, no profit or loss sale of asset is triggered.

Form C2 generally contains Description of the asset to be retired, date of sale/retirement/write off, sale proceeds (in case of sale), Buyer (in case of sale), Remarks (in case of write off).

Every asset retirement should precede an asset retirement request to be maintained manually and

only upon the release of this notification should an asset retirement be done. While doing a retirement, the notification number should necessarily be given.

Asset retirement can be done in many ways and if the asset is retired with revenue and with customer, then a customer liability is created while retiring the asset and the system will take care of all the background processing like calculating the net book value, loss/gain on sale of asset etc., if needed, we can also enter an out put tax indicator to have the sales tax component added to the transaction.

Asset retirement can happen by way of sale of an asset to a customer, sale without customer, debiting customer account for loss of asset and also by way of scrapping. In case of scrapping, the asset scrap will be without customer and this can also be with and without revenue. The process for all the above transactions will be as per the flow chart depicted below.
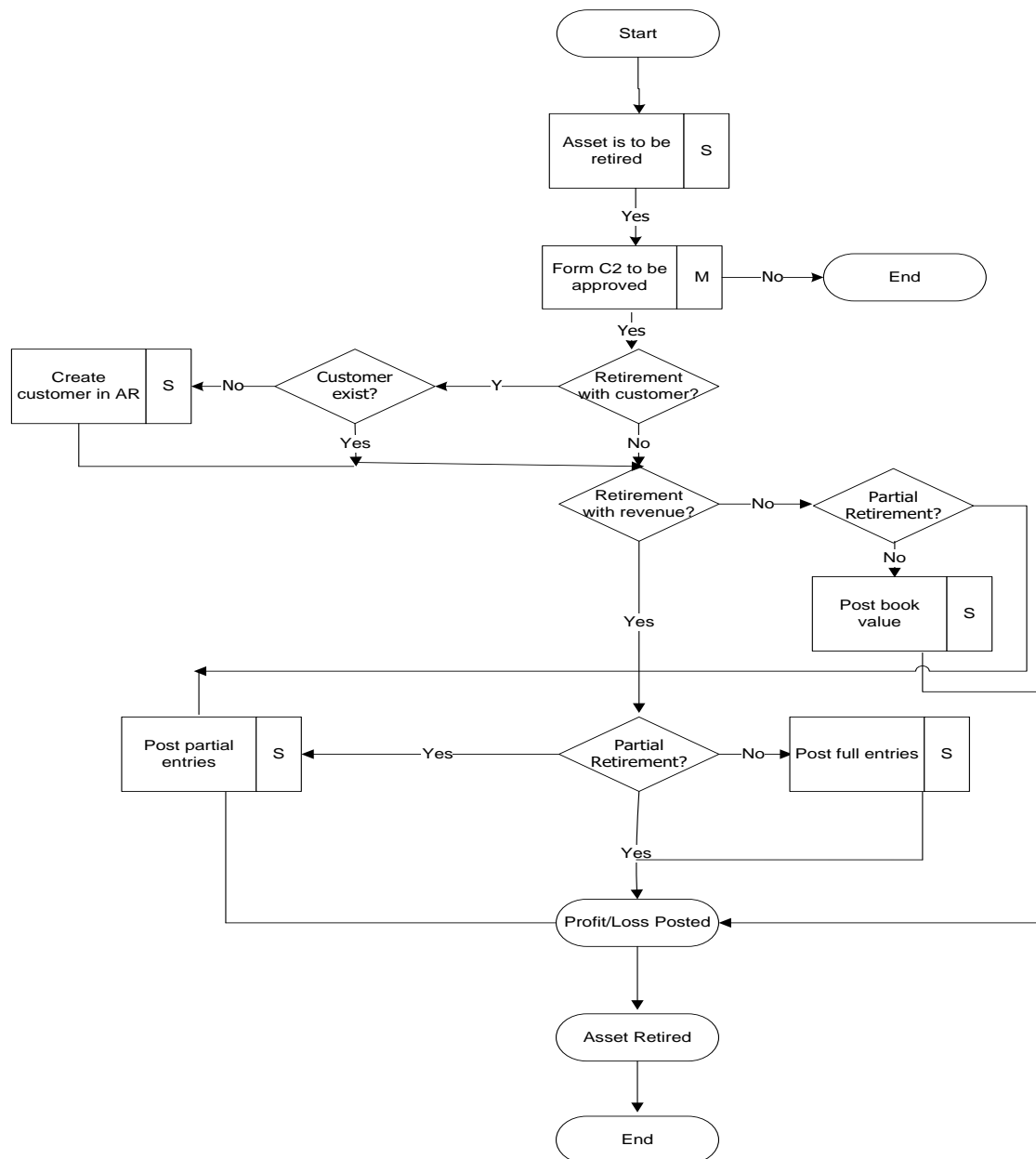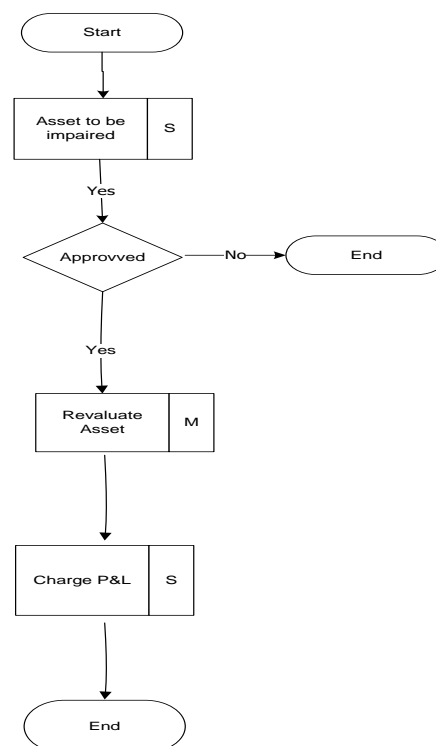
Flow diagram for retirement of assets

Business process for transfer of Assets:

Normally no transfer of Asset will be happen, but the same is formalized through a sale of Asset mode which is described above.

Impairment of Asset

Compliance with AS w.r.t the Cash flow estimation (net present value of the cash flows vis a vis the net asset value) of the asset is to be considered before taking a decision. This has to be part of the process.

```
                    ( Start )
                        |
                        v
              +-----------------+---+
              | Asset to be     | S |
              | impaired        |   |
              +-----------------+---+
                        |
                       Yes
                        v
                  <  Approvved  >-----No----( End )
                        |
                       Yes
                        v
              +-----------------+---+
              | Revaluate       | M |
              | Asset           |   |
              +-----------------+---+
                        |
                        v
              +-----------------+---+
              | Charge P&L      | S |
              +-----------------+---+
                        |
                        v
                    ( End )
```

Flow diagram for impairment of asset