SAP FI ACCOUNTING ENTRIES

In detail

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SAP Accounting Entries

Inventory

1.1 All the Inventory transactions will look for the valuation class and the corresponding G.L. Accounts and post the values in the G.L accounts.

☞ For Example: during Goods Receipt

Stock Account	Dr
G/R I/R Account	Cr
Freight clearing account	Cr
Other expenses payable	Cr

☞ During Invoice Verification

G/R I/R Account	Dr
Vendor	Cr

1.2 When the Goods are issued to the Production Order the following transactions takes place:

Consumption of Raw Materials	Dr
Stock A/c	Cr

1.3 When the Goods are received from the Production Order the following transactions takes place:

Inventory A/c	Dr
Cost of Goods Produced	Cr
Price difference	Dr/Cr

(Depending on the difference between standard cost and actual cost)

1.4 When the Goods are dispatched to customer through delivery the following transactions takes place:

Cost of Goods Sold	Dr
Inventory A/c	Cr

1.5 When the Goods are issued to a Cost Center or charged off against expenses the following transactions takes place:

Repairs and Maintenance	Dr
Inventory A/c	Cr

1.6 When the Goods are stock transferred from one plant to another, the following transactions takes place:

Stock A/c	Dr (Receiving location)
Stock A/c	Cr (Sending location)
Price difference	Dr/Cr

Due to any difference between the standard costs between the two locations)

1.7 When the stocks are re-valued, the following transactions takes place:

Stock A/c	Dr/Cr
Inventory Revaluation A/c	Cr / Dr

When the Work in Progress is calculated the following transaction takes place:

Work in Progress A/c	Dr
Change WIP A/c	Cr

1.8 Physical verification /shortages and excesses: Shortages/excesses on authorizations shall be adjusted using the physical inventory count transaction.

Invoice Generation

1.9 Invoices will be generated at the Smelters and stock points. The accounting entries for the sale of goods dispatched will flow from the Sales invoice generated in SAP Sales and Distribution module. The following entries shall be passed

Customer Account	Dr
Revenue	Cr
Excise Duty Payable	Cr
Sales Tax Payable (local or central)	Cr

Note: As mentioned above in the FI document, which is created in the background, the SD invoice number shall be captured. However as per the current accounting procedure the accounting entry passed is as follows:-

Customer Account	Dr
Revenue	Cr
Excise Duty Billed	Cr
Sales Tax Payable (local or central)	Cr

Excise duty paid a/c	Dr
Excise duty payable a/c	Cr

Export Sales

1.10 There have been very few export transactions in the past. SAP system will be designed to handle export business. Exports are mainly from the mines and will be handled at the mines; however the documentation part will be taken care at the Head Office. The accounting entry is:

Customer Account	Dr
Revenue (Exports)	Cr

1.11. The realization of export sales will be directly credited to the bank. The accounting entries will be as follow:

Bank	DR
Customer	CR
Exchange Fluctuation	DR/ CR

1.12 The accounting entries will be:

- Rebates/Discounts Dr
- Customer Cr

Debit Memos

1.13 Debit Memos shall be issued in case of price difference, sale tax difference and interest on usance period and overdue payments.

1.14 The accounting entries for two possible scenarios are as follows:

Price Undercharged:

Customer Account	Dr.
Revenue	Cr.
Sales tax payable	Cr.

Sales tax undercharged

Customer Account	Dr.
Sales tax adjustment	Cr.

Interest on delayed payments/usance period and other charges

Customer Account	Dr.
Interest Others	Cr.

1.15 In case of HZL a complete retirement or a partial retirement of asset is done. The system uses the asset retirement date to determine the amount to be charged off for each depreciation area. The existing accounting policy is to provide depreciation for the full quarter in which the asset is sold/discarded, recommended that the depreciation be provided from the date of acquisition on prorata basis.

1.16 Accounting entry for sale of Asset to customers:

Customer Account	DR
Asset Sale	CR
Accumulated Depreciation	DR
Loss on Sale (if applicable)	DR
Asset Sale account	DR
Asset account	CR
Profit on sale (if applicable)	CR

Note: In case of any Sales Tax /Excise duty applicable for this transaction, SAP will calculate the Sales Tax/Excise Duty based on the Tax Code selected the entry is posted to the GL Account (Sales Tax Payable)

1.17 Accounting entry for sale without a customer:

Accumulated Depreciation	DR
Loss on Sale (if applicable)	DR
Asset Sale account	DR
Asset account	CR
Profit on sale (if applicable)	CR

1.18 Accounting entry for scrap

Accumulated Depreciation	DR
Loss on Sale of Assets	DR
Asset account	CR

Sale of Scrap

1.19 The sale of scrap (non-stock) shall be mapped as a direct manual FI entry. The customer will be created as a FI customer. No Logistics module will be involved in the process.

1.20 A FI Invoice will be prepared for the sale of scrap with the following entries:

Customer	Dr
Sale of Scrap	Cr
Excise Duty Payable	Cr

Advances from Customers

1.21 Advances are received from the customers against delivery. These advances will be recorded in a special general ledger account. The accounting entry for the same will be:

Bank Account	Dr
Advance Customer Payments	Cr

These advances will be later on adjusted against the invoices raised on the customers. Advances can be adjusted against more than one invoice at the time of clearing of the invoices against advances.

1.22 Adjustment of Advances

Customer Account	Cr
Advance Customer Payments	Dr

A financial document would be created for each Bank Guarantee received and this document number will be referred to in the Sales Order which would then monitor the value and the validity of the of the Bank Guarantee instrument wise while doing the billing.

The letter of credit /Bank guarantee given will be recorded as a noted item.

1.23 Accounting Entry for Goods receipt

Stock/Inventory account	Dr
GR/IR account	Cr
Freight clearing account	Cr

1.24 Accounting Entry on invoice verification of supplier

GR/IR	Dr
Vendor account	Cr

1.25 Accounting Entry on invoice verification of freight vendor

Freight clearing account	Dr
Freight Vendor account	Cr

Goods Receipt

1.26 Based on the Purchase order and the Quantity actually received Goods Receipts (GR) will be done. Based on the GR done the following accounting entry will be passed in the Financial Accounts

RM/PM Stock Account	DR
GR/IR Account	CR
Freight Clearing Account	CR

Excise Invoice Verification

1.27 On receipt of the excise invoice cum gate pass the following entry will be passed

RG 23 A / RG 23 C Part 2 Account	DR
Cenvat Clearing Account	CR

Vendor Invoice Verification

1.28 The detail process related to invoice verification is documented in Materials Management Document.

On receipt of vendor bill the following entry will be passed

GR/IR Account	DR
Freight Clearing Account	DR
Cenvat Clearing Account	DR
Vendor Account	CR

1.29 Invoice Verification for Foreign Vendor

On receipt of vendor bill the following entry will be passed:

GR/IR Account	DR
Vendor Account	CR

1.30 Invoice Verification for Custom vendor

On receipt of Vendor bill the following entry will be passed:

1)	RG 23A/RG 23C Part 2 A/c (CVD) A/c	DR	
	Cenvat Clearing A/c		CR
2)	G/R I/R A/c	DR	
	Cenvat Clearing A/c		DR
	Vendor A/c	CR	
3)	Cost of Material A/c	DR	
	Vendor A/c (Customs)	CR	

1.31Invoice Verification for Freight / Clearing Agent

Cost of Material A/c	DR
Vendor A/c (Clearing Agent)	CR

1.32Invoice Verification for Octroi Expenses

Cost of Material	DR
Vendor A/c (Octroi)	CR

1.33 TDS (Work Contract Tax) for Service Orders shall be calculated and deducted accordingly. The detail of TDS has been discussed in separate chapter.

The following entry will be passed on bill passing

Expenses Account	DR
Vendor Account	CR
TDS Account	CR

☞ 1.34 The material shall be returned to the vendor using the

☞ Return to vendor movement type in SAP

Creating a Return PO

These transactions will be processed in the MM module. The accounting entries will be :

Returns after GRN

GR/IR A/c	Dr
Stock A/c	Cr

The accounting in respect of debit / credit memos for FI vendors, the process will be similar to that of invoice processing. The accounting entries will be:

On issue of debit note

Vendor Account	DR
Expenses Account	CR

1.35 In respect of import vendor - capital goods exchange differences are to be accounted manually through a Journal Voucher for capitalization. Exchange rate differences will be accounted at HO. An example of the accounting entry in this case shall be:

Invoice entry @ 40 INR: 1 USD

Asset / Expense A/c	DR	100
Vendor A/c	CR	100

Payment Entry @ 41 INR: 1 USD

Vendor A/c	DR	100
Bank A/c	CR	110
Exchange rate loss Capital A/c	DR	10
Asset A/c	DR	10
Exchange rate loss Capital A/c	CR	10

1.36 A new G/L account shall be created for the special G/L transactions.

The accounting entry for making the down payment shall be:

Advance to supplier account	Debit
Bank A/c	Credit

When the invoice is booked the following entry is passed

GR/IR account	Debit
Vendor account	Credit

Clearing of Invoice against Down Payment

Vendor A/c	Debit
Vendor down payment account	Credit

Wherever, TDS is applicable, the TDS will be deducted at the time of down-payment to the vendor.

DOWN PAYMENT FOR CAPITAL (TANGIBLE) ASSETS

1.37 Down payment to vendors for capital acquisitions is to be reported separately in the Balance Sheet under the head Capital Work in Progress. Hence down payment for capital goods would be tracked through a separate special general ledger indicator.

1.38 The procedure to be followed is:

- Definition of alternative reconciliation accounts for Accounts Payable for posting down payments made for Capital assets
- Clearing the down payment in Accounts Payable with the closing invoice. A new G/L account shall be created for the special G/L transactions.

The accounting entry for making the down payment shall be:

Vendor Advance for Capital Goods Account	Debit
Bank A/c	Credit

When the invoice is booked the following entry is passed

Asset A/c / Asset WIP	Debit
Vendor A/c	Credit

Clearing of Invoice against Down Payment

Vendor A/c	Debit
Vendor Advance for Capital Goods Account	Credit

1.39 The Following are the TDS Rates (to be confirmed with the recent changes)

Particulars	Tax Rate	Surcharge Rate	Total
Contractors – 194 C	2%	5%	2.10%
Advertising – 194 C	1%	5%	1.05%
Prof. Fees – 194 J	5%	5%	5.25%
Rent – Others – 194 I	15%	5%	15.75%
Rent – Company – 194 I	20%	5%	21%
Commission – 194H	5%	5%	5.25%
Interest - Others – 194 A	10%	5%	10.50%
Interest – Company – 194 A	20%	5%	21%
Special Concessional Tax			
Works Contract Tax			

Security Deposits /Earnest Money Deposit Received from Vendors

Bank A/c	DR
Security Deposit Vendor	CR

EMD to give the age so as to enable the same to be transferred to unclaimed EMD account.

Payment OF TOUR Advance Domestic tours

1.40 Employee Advances will be paid by the Accounts Department unit wise based on the Requisition or recommendation of the respective departmental head.

Employee Travel Advance A/c DR
Cash / Bank Account CR

Settlement of Tour Advances Domestic/Foreign

1.41 Settlement of advance will be done by the Accounts Department based on the Travel Expense Statement submitted by the employee, which is approved by the Concerned Department Head.

1.42 Expenses Account DR
Cash/Bank Account DR (if, refund)
Employee Advance Account CR
Cash/Bank Sub ledger Account CR (if, payable)

2 Banking Operations

Maintenance of Bank Master

2.1 A House Bank is a combination of a Bank and a Branch. Account id is the account number. A house bank can have multiple account IDs.. There could be a main account as also payable account, which will be defined as separate account ids. General Ledger accounts have to be created for each combination of a house bank and account ID. The bank master details are to be provided by HZL.

2.2 General Ledger accounts have to be created for each account ID in the house bank. Bank Account Master data will be maintained by the Finance Department centrally.

2.3 Each house bank and account ID combination shall have one main general ledger account and several sub accounts mainly based on broad transaction types. These sub accounts are necessary to facilitate automatic bank reconciliation process in R/3 system.

Bank Accounting

2.4 The accounting entries will be generated automatically according to the posting rules attached to the Transaction type. The following accounting entry is passed by the system in respect of cheque deposit on account of collection from domestic customers.
Bank cheque deposit account Debit
Customer account Credit

2.5 In this case, a bank sub account is selected based on the transaction code entered by the user. The customer account is cleared i.e. invoice is cleared against the receipt. In respect of any other deposits, the relevant accounts to be credited will depend on the nature of transaction.

2.6 Payment against bills for collection. Based on the bank advices falling due on a particular day one payment advice is made debiting the vendors and crediting bank.

Cheque Deposit- Customer Receipts

2.7 All cheques received from customers shall be accounted at the point of receipt The entry posted shall be
Bank Sub account Dr
Customer Account Cr

Cheque Deposit – Other Than Customer Receipts

2.8 All other receipts will be accounted through the Incoming Payment Transaction of the Accounts Receivables module.

Cheque Bouncing – Other Than Customer Receipts

2.9 Based on the information of cheque bounced from the Bank, the accounts Department will pass accounting entries for the cheque that have been bounced. The procedure to handle bouncing of a cheque has been discussed under the following

2.10 Reset the clearing document – If the document has been cleared i.e. an open outstanding item has been cleared against an incoming receipt, then the clearing document has to be reset to its original status of open item. This process is known as reset of cleared document.

2.11 Reverse the entry passed for cheque deposited earlier – Once the document has been reset it will be reversed. The following accounting entry will be passed.

FI Customer	DR
Bank cheque deposit account	CR

2.12 In case of cheques being damaged while printing, the concerned cheques no. has to be voided and the payment will be rerun.

Bank Reconciliation

2.13 The Bank reconciliation process is based on the entries passed through the Bank sub account and main account. The process is dependent on the Bank Statement received from the Bank that will be entered into SAP . Accounting rules are to be defined for each transaction type and posting rule for posting accounting entries as per bank statement. Bank statements to be uploaded into SAP.

2.14 Bank Main account balance is the actual balance as per the bank statement whereas the Bank sub accounts denote the reconciliation items. These sub accounts show those entries, which will flow from the sub account which are not cleared in the bank statement.

2.15 Adding or subtracting the Bank sub accounts will help in preparing the Bank reconciliation statement.

2.16 The following scenarios would explain the reconciliation process:

- Cheque received from customer
- Cheque issued to vendors
- Cheque received from Other than Customers
- Direct Debits in Bank Statement
- Direct Credits in Bank Statement
- Fund Transfer between Bank Accounts

Cheque Received from Customer

2.17 Accounting entry at the time of cheque deposit entry

Bank Cheque deposit account	Debit
Customer	Credit

2.18 Accounting entry after cheque has been cleared in the Bank statement

Main Bank account	Debit

Bank Cheque deposit account	Credit

2.19 The clearing criteria for updating the bank main account and bank sub account will be amount and document number which will be captured in the allocation field of the bank sub account. The items, which have not been cleared in the bank statement, will remain open in the bank sub account and will form part of the bank reconciliation statement.

Cheque Issued to Vendors

2.20 Accounting entry at the time of cheque issue

Vendor account	Debit
Bank cheque payment account	Credit

2.21 Accounting entry after cheque has been presented in the Bank

Bank cheque payment account	Debit
Main Bank account	Credit

2.22 The clearing criteria used for updating vendor account and Bank cheque payment account will be amount and cheque number. The cheques presented to the bank and are cleared are transferred to the bank main account. The remaining cheque issued will form part of the bank reconciliation statement.

Direct Debit in Bank

2.23 Direct debit instructions will be given to the bank for example, LC payments or certain bank charges are directly debited in the Bank Statement. In this case accounting entry is passed only after the entry is passed in the bank statement.

Vendor / Expense Account	Debit
Bank clearing account	Credit

Direct Credit in Bank

2.24 Customer receipts are sometimes directly credited in Bank. E.g. export receipts. In this scenario accounting entry is passed only at the time of bank statement entry.
The following accounting entry is passed

Bank clearing account	Debit
Customer account	Credit
Main Bank A/c	Debit
Bank Clearing A/c	Credit

Bank Fixed Deposits

2.25 HZL has a practice of converting any amount above Rs. 1 crore in its Main bank account, to a fixed deposit subject to a minimum of Rs. 1.01 crores. The FDR number can be filled in one of the fields available in the accounting document.

Cheque Management/ Cheque Printing cum Advice

2.26 The function of cheque management will enable printing of cheque through SAP. Cheque series will be defined for a combination of a Company code and Bank Account. Cheque numbering will be sequential order.

2.27 Cheque series for automatic payment has to be in sequential order. Cheque printing facility will be available for the bank account.

CASH MANAGEMENT/LIQUIDITY ANALYSIS

2.28 The day-to-day treasury process in a company includes a number of transactions. This includes determining the current liquidity using bank account balances (cash position), determining open receivables and liabilities (liquidity forecast), manually entering planned cash flows (payment advice notes), through to clearing bank accounts, that is, collecting multiple bank account balances on one target account.

2.29 The main objective is to ensure liquidity for all due payment obligations. It is also important to control and monitor effectively the incoming and outgoing cash flows.

2.30 This section shows you the overall liquidity status of your company by displaying together the cash position and the liquidity forecast.

The cash position is used in Cash Management to show the value-date-dependent bank accounts and bank clearing accounts, as well as the planned cash flows (payment advice notes). The liquidity forecast comprises the incoming and outgoing cash flows, as well as the planned items on the sub-ledger accounts.

Thanks

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