

Unit 6: Financial Accounting

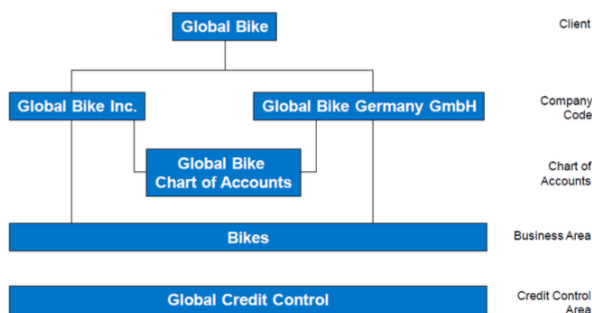
Organizational Structure (FI)

Organizational Structure

Client	An independent environment in the system (one Client may have more than one Company Code).
Company Code	Smallest Org Unit for which you can maintain a legal set of books. Balanced Set of books, as required by law, are prepared at this level.
Chart of Accounts	A classification scheme consisting of a group of general ledgers (G/L) account. 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.
Credit Control Area	An organizational entity which grants and monitors a credit limit for customers. It can include one or more company codes.
Business Area	An organizational unit that represents a separate area of operations or responsibilities within an organization and to which value changes recorded in Financial Accounting can be allocated. Financial statements can be created for business areas, and these statements can be used for various internal reporting purposes.

Controlling Area:

Is the basic organizational unit in Controlling (CO). A controlling area is a closed entity used for cost accounting. You can allocate costs only within a controlling area. These allocations cannot affect objects in other controlling areas. You can assign more than one company code to a controlling area. Example of Global Bike Structure for financial Accounting:



Master Data

1. **General Ledger (G/L) Accounts:** The unique combination of Company Code and Chart of Account creates a data storage area called a General Ledger. The General Ledger contains a listing of the transactions effecting each account in the Chart of Accounts and the respective account balance. It is updated each time a user posts a financial transaction in SAP system. It is utilized in the preparation of financial accounting statements. It is fully integrated with all the other operational areas of a company and ensures that the accounting data is always complete and accurate.
2. **Customer and Vendor Master Data:** In SAP FI, Customer and vendor account balances are maintained by fully integrated accounts receivable and accounts payable sub-ledgers. Financial postings for customers and vendors are made directly to their

respective individual accounts. A concurrent automatic posting in the G/L is executed for each customer or vendor posting.

<i>Customer Accounts: Accounts Receivable Sub-Ledger (FI-AR)</i>	<i>Vendor Accounts: Accounts Payable Subledger (FI-AP)</i>
<ul style="list-style-type: none"> -Contain information as sales and payments made from the customers -There is an important integration between Sales and Distribution (SD) and Financial Accounting (FI) -Billings in SD generate FI journal entries for sales activity 	<ul style="list-style-type: none"> -Contains information as purchases and payments made in relation to the vendors -There is an important integration between Materials Management (MM) and Financial Accounting (FI) -Purchase and goods receipt activities in MM generate FI journal entries

FI Reporting

- **Balance Sheet:**
 - Organization's Assets, Liabilities, and Equity at a point in time
 - Assets: What the company owns
 - Liabilities: What the company owes
 - Equity: The difference between Assets and Liabilities
 - $\text{Assets} = \text{Liabilities} + \text{Equity}$
- **Income Statement:**
 - Organization's revenues and expenses for a given period of time (e.g. monthly, quarterly, or yearly)
 - Revenues are inflows of cash as a result of selling activities or the disposal of company assets.
 - Expenses are outflows of cash or the creation of liabilities to support company operations.
 - $\text{Revenues} - \text{Expenses} = \text{Net Income}$
- **Cash Flows Statement:**
 - Associated changes, both inflows and outflows, that have occurred in cash over a given period (e.g. monthly, quarterly, or annually)
- **Accountant and Audit Trails:**
 - Audit trails allow an auditor to begin with an account balance on a financial statement and trace through the accounting records to the transactions that support the account balance.
 - Audit trails enable an auditor to trace individual transactions to the effected account balance(s) on a financial statement.

Reporting: SAP Document Principle

In SAP, each business transaction impacting FI writes data in the system creating a uniquely numbered electronic document.

It contains, for example, such critical and necessary information as:

- ✓ Responsible person
- ✓ Date and time of the transaction
- ✓ Commercial content

The financial document can not be deleted from the database, but it can be changed to some degree.

The SAP document principle provides a solid and important framework for a strong internal control system – a requirement of law for companies that operate in most countries in the world.