

SAP Banking Payment & Collection Reconciliation Complements Accounting Teams

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Abstract: One of the most important SAP functionalities in Finance is the automatic payment run which enables the AP team to make large scale payments from SAP. It is a standard practice for Businesses to go for the automated processes for dispatching payment instructions to their Banking partner(s) thereby executing the payments to their beneficiaries. A similar process is observed while the Banker collects the incoming payments for an Organization, the Bank account of which is held in the Bank. In either case, accounting entries are passed in the SAP system which are known as documents. However, since there is a flow of money to and from the Bank concerning the paying or receiving Organization, there is every need for reconciliation entries to reflect the correct amount in the Bank accounts in SAP. The Bank statements play a critical role in reconciliation in SAP. This article describes the reconciliation process for the incoming and outgoing payments, trends, its impact and how it complements the General Ledger teams. Contrary to the general opinion that automation may cut down the General Ledger (GL) workforce, automated reconciliation complements the accounting teams.

I. INTRODUCTION

The Accounts Payables (AP) team takes care of scheduling and executing automatic payment runs in SAP. It is a specialized business user activity with proper internal control. The Vendors/Beneficiaries are picked up by the system based on the inputs specified in the SAP transaction F110. The vendors are picked up as per the payment terms and invoices due. On execution of payment run, SAP posts documents using the Clearing GL account. On receiving confirmation from the Bank that the payments are released from the Bank account, the outgoing amount is booked to the actual Bank GL account in SAP. This was an erstwhile manual activity. However, with Electronic Bank Statement (EBS) functionality, this process is automated thereby eliminating the manual effort considerably. EBS is also useful in posting entries for collections. When the receivables are given by the Customer(s) in cash/check/by credit card, the SAP document is posted using the clearing GL account. The Bank GL account is used on receipt of confirmation in the Bank statement.

II. RATIONALE OF RECONCILIATION

Reconciliation: Most Organizations have a separate GL team for the upkeep of Accounts and reporting the balances periodically. These teams take care of the reconciliation activities as well, to comply with the double entry system (for every credit, there is an equal debit). It is known fact that there are SAP end users and SAP Consultants in a typical scenario. The users take care of the Business processes and use SAP for the progression of these processes. For example, Procure to Pay, Order to Cash, disbursements (Accounts Payables), collections (Accounts Receivables), Month end processes (series of jobs such as period closing/opening, depreciation, and the like) are a few processes taken care of by the business teams. The Consultants are responsible for configuration of SAP across the various modules including Finance and Controlling. They support the SAP landscape and assist the users in a Support Project known as Application Management Services (AMS). When there is payment due to the automatic payment run, the vendor account is debited. The Clearing GL account is credited unlike the actual GL account pertaining to the Bank account. This is because there is no confirmation yet that the amount is actually paid by the Bank to the Beneficiary. As of now, we have done the payment in SAP and consequently, the document is posted.

Payments in SAP

Account	Debit	Credit
Vendor Account	✓	
Clearing GL account		✓

When the Bank transmits the statements electronically, enlisting the details of the transactions on the Bank account, it is confirmation that the fund is moved from the Bank account to the Beneficiary. Now, the document is posted in SAP to complete the reconciliation.

Account	Debit	Credit
Clearing GL account	✓	
Bank GL account		✓

The Clearing GL accounts are always open item managed. Postings to the items in these accounts will be incomplete unless the clearing takes place. Then the items are marked as cleared.

Receipt of amounts on account of receivables from the Customers may be transferred by the latter to the Organization's Bank account directly in which case, the booking in SAP will be not on the clearing GL account, but the main Bank GL account. This will be posted in SAP on confirmation by the Bank's statements the next day. The posting is usually through the EBS functionality or by any other solution that the Organization may opt for, such as XML/Lock Box depending on various factors.

Receipts in SAP

Account	Debit	Credit
Bank GL account	✓	
Customer account		✓

When the incoming payment is in the form of Cash/Check/credit card payment, the clearing GL is used as shown in the table below to complete the accounting in SAP.

Account	Debit	Credit
Clearing GL account	✓	
Customer account		✓

On confirmation by the Bank, the document is posted in SAP to credit the Clearing GL account and debit the Bank GL account. As mentioned previously, this document is posted automatically with the EBS functionality in place. In the entire process, the role of the GL team is critical as they have ownership of the respective GL accounts.

Account	Debit	Credit
Bank GL account	✓	
Clearing GL account		✓

III. AP/AR SAP SET UP

It is prerequisite for the reconciliation to have the relevant Bank accounts set up in SAP in the House Bank configuration which is a reflection of the Bank Account held by the Organization at the Bank. However, for accounting purposes, a GL account which is widely termed as main Bank GL account is assigned to the House Bank, account number combination. The clearing GL account is however configured in the automatic payment run settings. Note that it is an imperative that there should be master data pertaining to the Vendors and Customers along with the relevant payment methods. Also, the GL accounts used must be in active state and available in SAP. There is also connectivity established between the Bank and Client Organization through appropriate means such as Host-to-Host connection or Multi-Bank connectivity which is the preferred connection in recent times. The same connection is used for the transmission of Bank statements as well. On the AR side, the Lockbox configuration will be in place where this functionality is supported, particularly in the US region. The Lockbox file is transmitted from the Bank to the Company's SAP system where the clearing takes place. In other regions, we may come across the XML solution for receiving incoming payments where the incoming file from the Bank is processed in SAP to post documents for Customer receipts.

IV. EBS SET UP IN SAP

A. Bank Statements: Bank statements are apparently a gist of the transactions that have flown through the Business' Bank account. These are received from the Bank at regular intervals and confirm the disbursements or incoming payments. The statements are received electronically. Various types of bank statements are supported in SAP such as SWIFT MT940, BAI (Bank Administration Institute), MultiCash, XML, etc. Bank statements contain information on the type of transaction executed. These are known as Transaction Codes. These are defined by the Bank. The SAP system interprets these transaction codes to identify the type of transaction, for instance receipt/payment/debit note/credit note/Bank transfer, etc. A few examples of the transaction codes are given below. These are exclusive only and not exhaustive.

195 Incoming Wire **206** Bank transfer from foreign Bank

266 Outgoing Wire return **255** Check Returned

475 Check paid **495** Outgoing Wire

654 Overdraft Interest

These external transaction codes, as they are known (Bank defined) are important for the reconciliation entries which are configured for automatic posting in SAP.

B. Analysis of external Transaction Codes in the Bank statements: Analysis of the last few months' transactions is helpful in interpreting the types of transactions reported in the bank statements. This will abet in setting up the document posting for versatile types of transactions to have a wide coverage of postings in SAP. It must be performed by a person who understands both Business as well as SAP finance. Studying past transactions can bring to fore the recurring transactions and the one-off kind of business activities. There will be extensive interaction between the Analyst performing the analysis and the Business teams, especially the GL teams. Sometimes, there is also a need to seek clarification from the Bank on any queries pertaining to certain transactions. The outcome of this analysis is the Statement of Work (SoW) enlisting the various transaction codes that can be used for setting up the EBS functionality in SAP. The GL accounts to be used are also identified. The SoW will be a ready reckoner for the technical teams working on the EBS Project.

C. SAP Configuration: It is done at the Chart of Accounts level. The following are the standard steps in the configuration.

- Account Symbols are created. User defined Account symbol specifies which GL Account is used for posting.
- Accounts are assigned to Account Symbol. GL Accounts are assigned to the Account symbols. For example, GL account 113025 mapped to outgoing wires.
- Posting Rule Keys are created specifying the description for posting rules
- Posting rules are defined. The posting rules lay down what is to be debited, and what is to be credited. It also specifies the document type and posting key with which the document posting must take place.
- Transaction Types are created. It is the step where the indicative transaction type is created. This will have various external transaction types/codes assigned with the posting rules.
- In the last step, Bank Accounts are assigned to the Transaction types.

Running the upload: SAP program for EBS is used for processing the statement uploads and posting the documents. There are batch runs in a periodic manner to upload the files for reconciliation postings. These are monitored by the SAP support team, usually the FI team daily as per the frequency. In case of any inconsistency or failure, the statements are re-processed after corrective action as the SAP consultant deems fit from the SAP technical perspective.

V. CLEARING MAY STILL NOT HAPPEN DESPITE EBS

Apparently, there are likely to be situations where issues are encountered in reconciliation. A few are briefly elucidated here.

- The file formats may be incorrect
- There are missing configurations
- The Clearing GL accounts are missing
- Posting rules are incorrect
- Bank charges are reported on incorrect transaction codes
- Some of the external transaction codes are new and need to be set up

Each of the above needs corrective action, after which the upload is reprocessed. The examples above are exclusive, but not exhaustive. It needs Personnel with business expertise to fix the issues. The configuration in SAP is essentially the SAP Consultant's job on a case-to-case basis. There is always the scope for inclusion of the newer transaction codes.

VI. SAP CASH APPLICATION

SAP Cash Application functionality is available with S/4 HANA cloud as well as S/4 HANA. It automates the Order to Cash process in Accounts Receivables. It aims to reduce the manual processing of entries when some of them do not clear from the Bank statement. SAP Cash Application leverages Machine Learning (ML) so that the items in the incoming Bank statements are matched with the open receivables in SAP. Similarly, the items for outgoing payments in the Bank statements are matched with the open payables. SAP Cash Application is useful in clearing Lock Box items as well, just as the Bank statements. Thus, it eliminates the manual processing to a considerable extent. It has the benefit of reducing exceptions in clearing, saving time, increases the GL team productivity. ML uses the past data from manual postings to arrive at the appropriate posting for the new data for clearing purposes. However, SAP Cash Application has separate license requirement. The figure below illustrates the Cash Application process.

SAP Cash Application



VII. SAP FUNCTIONALITIES FOR RECONCILIATION COMPLEMENT ACCOUNTING TEAMS

Reconciliation assumes lot of significance in view of millions of transactions with various Banking partners. Banking statements abet the clearing process for the Accounting/GL teams. The conventional manual efforts are characteristic of the humongous work of the GL teams. These teams are ramped up based on the regions across which the Business is spread, keeping in view the regulations for the respective geographic regions. With the SAP EBS functionality, one might surmise that the work of these accounting personnel is either diluted or reduced leading to the decline in the workforce. It is sometimes viewed as a staff cutting measure. However, it is in fact a means to reduce the redundant work and streamline the work of the Accounting personnel than making the latter's role indispensable. The mundane tasks are substantially eliminated and the GL team can focus on the value addition tasks that are at the L2 (Level 2) and L3 (Level 3) levels implying that their finance skills are optimally leveraged. Only the items that are not auto cleared are validated by the GL teams and they are handled on a case-to-case basis. It may also need some investigation in tricky situations, to arrive at the correct accounting treatment in the system. When specific recurring transaction types are not reported in the bank statements for auto clearing via EBS, GL team members are encouraged to report the same internally and then to the Banker. This will help in receiving the statements with such new codes relevant for these transactions and thereby are configured as addition in SAP. Similarly, Cash Application with its ML capabilities is great for inferring matching proposals. This is an opportunity for the reconcilers to be a part of the validations using the niche functionality. Last, but not the least --the items unmatched or unmatched proposal cases are dealt manually only.

VIII. CONCLUSION

Disbursements and Collections for an Organization need to be recorded accurately as part of the overall accounting. Banking transactions are needed to be reconciled within SAP and the EBS, SAP cash application functionalities are very useful. However, the role of the Accounting/GL Personnel cannot be discounted or undermined as we have seen through out this article. The various SAP functionalities complement the Personnel. There is potential for the process to become even more automated in the future. There will be involvement of the Accounting teams whether it is model training or accounting treatment of offbeat transactions encountered. So also, the inter-company transfers will need to be reviewed sometimes to accomplish the correct accounting treatment.

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