Best Practices for Ledger and Currency Setup in SAP S/4HANA

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SAP

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Agenda

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Extension ledgers, how do different Management Accounting postings use parallel ledgers

04 Best Practices for a future-proof setup in Private Cloud

Preparation for a future with Universal Parallel Accounting

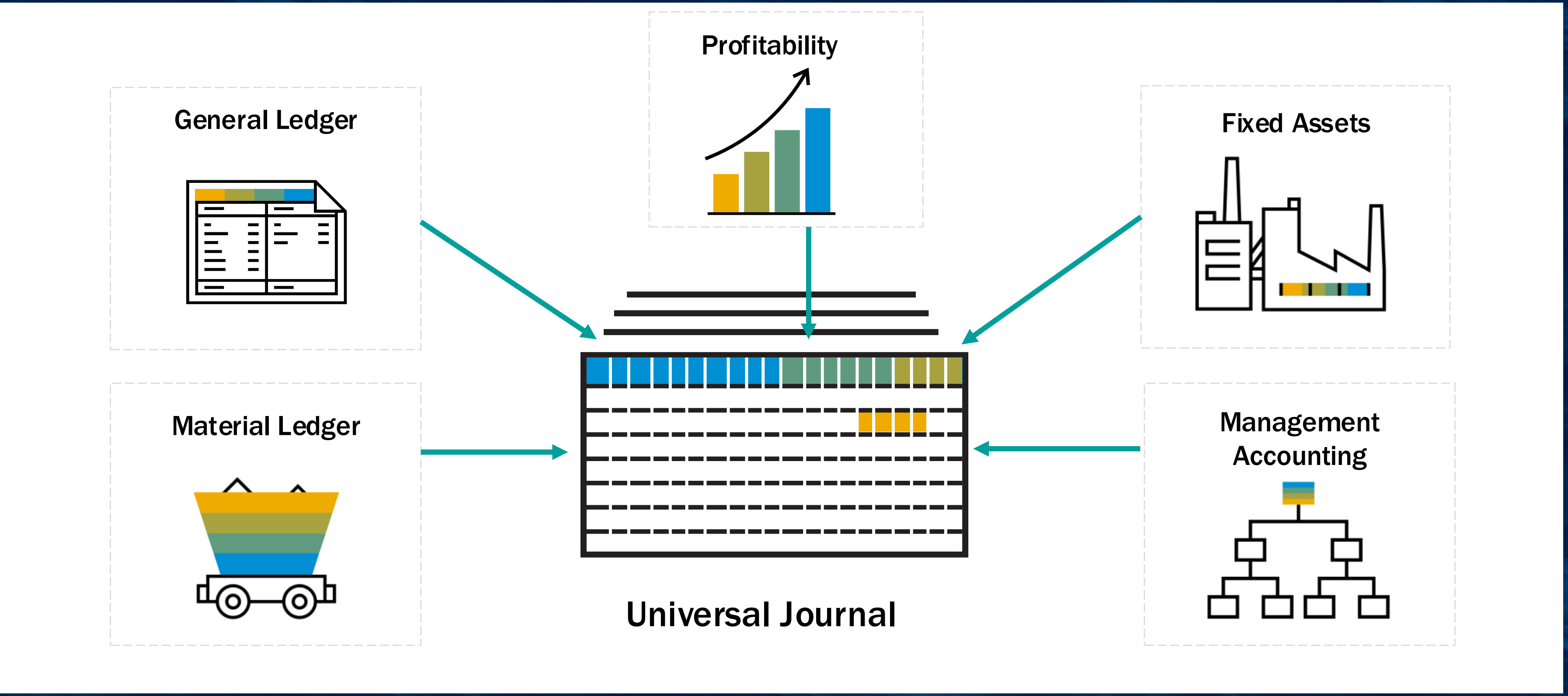
The Universal Journal

the basics: ledger, use cases for parallel ledgers, public cloud paradigms

Business Architecture - Fundamental Simplification

Key Messages

- Fundamental simplification in the architecture of Accounting
- Simplification reduces effort for the customer and enables better functionality moving forward
- Use the same structures for financial and management accounting (FI and CO)
- Share one common document table, no need any longer to move postings from one table to the next



Universal Journal – the Single Source of Truth for Finance

- the Universal Journal unifies different views and provides for real-time, consistent Finance data
- it serves multiple perspectives
  - Accounting View – external financial reporting
  - Controlling View – internal management reporting
- **General Ledger – Cost Object Controlling – Market Segment Reporting** in one common database

Universal Journal

General Ledger						Cost Object Controlling				Margin Analysis Market Segment Fields		
Journal Entry	Reference Doc	Ledger	Business Transaction	G/L Account	Amount	Account Assignment Type	Wbs element	QTY	Bill Product	Sales Order	Customer	Product Sold
1	Time sheet	0L	RKL	consulting	100€	WBS element	SW001.1.1	1h		4711	customer1	P002
2	Time sheet	0L	TBRR	Revenue Adjustment	-150€	WBS element	SW001.0.1	-1h	Platinum time	4711	customer1	P022
2	Time sheet	0L	TBRR	WIP	150€	WBS element	SW001.0.1	1h	Platinum time	4711	customer1	P022

Parallel Accounting – Business Needs

- Global organizations must submit financial statements according to multiple accounting principles.
- They also prepare financial statements according to a common accounting principle, e.g. IFRS, across all locations.
- Ledgers are used to distinguish these approaches, they separate transaction data for parallel accounting

Public Cloud Standard Content

Ledger	Germany	USA	Switzerland	Austria	
0L (Companies)	HGB	US GAAP	Swiss GAAP	UGB	
3L (Group GAAP)	US GAAP				optional

- All valuating business processes run and calculate per ledger with Universal Parallel Accounting (UPA)
- Full audit trail within a ledger
- In the past, we were able to fulfill the requirement, however, this required in some cases complex configuration and manual efforts due to the underlying architecture.
  With Universal Parallel Accounting we established a parallel value flow across end-to-end processes.

When is an additional ledger required?

Since an additional standard ledger can bring additional value but can also come with additional efforts (e.g. during closing activities which run per ledger, increased data volume…), it is strongly recommended to consciously decide at the beginning of an implementation whether a standard ledger is required to cover the respective use case. The following considerations can help to make this decision.

- You need to report financial data according to an alternative fiscal year variant
- You require a layer of financial data which is integrated with asset accounting, i.e. should receive postings from asset accounting based on different standards for e.g. useful life of an asset or depreciation key
- You would like to run different allocation rules/settlement rules in this additional view

An additional standard ledger is required

The accounting principle, currencies and fiscal year variant of this view are the same like one of your existing views e.g. for Group GAAP, but you would like to add direct postings only (via manual journal entries or upload etc.) to provide an additional view on your financial data.

Adding an extension ledger might be sufficient

Parallel Accounting – Use Cases

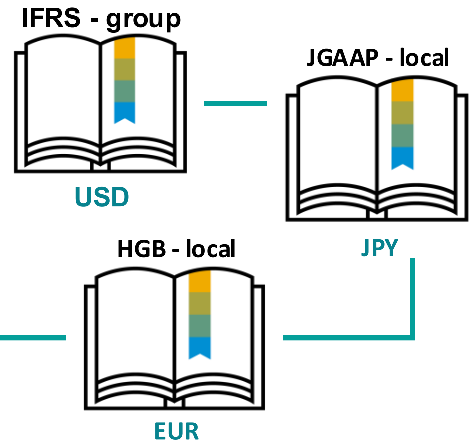
Main Use Case

Parallel Valuations

(unconsolidated view)

International companies need to follow parallel accounting standards for Group and Local GAAP (affecting inventory valuation, WIP, asset values etc.).

This is often related to financial reporting in parallel currencies, e.g. balance sheet according to HGB in Euro.



Deviating Fiscal Year Variants

Companies operating in certain countries require a fiscal year variant for their local financial reporting which is deviating from their fiscal year variant for their central reporting on group level.

Consolidated Views

For steering purposes customers require a group view where intercompany profits between trading partners are eliminated in real-time.

Public Cloud Paradigms

- 1 controlling area, no configuration options
- Currencies settings
  - company code currency (10) is currency of the country
  - group currency (30) as the common currency for all company codes
  - an alternative functional currency can be configured as 3rd currency (Z0)
- Ledger solution for parallel accounting (no COGM solution, we do not recommend parallel G/L accounts solution) – universal parallel accounting (UPA) is active in all public cloud systems
- All valuating business processes run and calculate per ledger
- Use separate ledger for Group Valuation, no "Multi-Valuation-Ledgers" (combining several transfer price valuation views in one ledger)
- Use projects/WBS elements, no internal orders
- Use use profit center/segment, business areas are not supported

Our future cloud innovations will rely on these paradigms

Parallel Ledgers, Currencies, and Fiscal Year Variants

setting up the basic structures for your Finance system

Important

Once postings exist, changing the ledger, currency or accounting principle configuration becomes impossible which potentially forces a reprovisioning/reimplementation

Ledger Standard Delivery/ Default Content in Public Cloud

Ledger	**Ledger Type**	**Accounting Principle default content**	**Scenario (Scope Item)**
0L	**leading ledger**	local accounting principle Recommendation when multiple ledgers are used: redefine for group accounting principle and move local GAAP to parallel ledgers	J58 (contained in the standard scope and cannot be deactivated)
2L	non-leading ledger	IFRS	1GA
3L	non-leading ledger	USGP	2VA
4G	non-leading ledger	no default accounting principle assigned	5W2

Ledger Scenarios: Choosing the Right Combination for Your Business Needs

Business Requirements		Ledger SetUp
0L	only **local** accounting principles	**Ledger 0L** (leading ledger)
0L 2L	**1 corporate** and **local** accounting principle(s) in parallel	**Ledger 0L** (leading ledger): local accounting principle is assigned by default > change to **corporate** accounting principle IFRS or USGP **Ledger 2L** (non-leading ledger): corporate accounting principle IFRS or USGP is assigned by default > change to **local** accounting principle(s)
0L 2L 3L	**2 corporate** and **local** accounting principles in parallel	**Ledger 0L** (leading ledger): local accounting principle is assigned by default > change to **corporate** accounting principle IFRS or USGP **Ledger 2L/ 3L** (non-leading ledger): corporate accounting principle IFRS/ISGP is assigned by default > change either 2L or 3L to **local** accounting principle(s)
0L 2L 3L 4G	any of the above options plus one group valuation ledger	One of the above combinations **Ledger 4G** (non-leading) as group valuation ledger

Ledger Configuration – Backend view with Public Cloud default content

Display View "Define Settings for Ledgers and Currency T..": Overview

All Table Views

Dialog Structure

- Currency Types
- Global Currency Conversior
- Currency Conversion Setting
- Ledger
  - Company Code Settings f
    - Accounting Principles f

Ledger

Ld	Ledger Name	Leading	Ldgr Type	ExtLdgrTyp	Underlying Ledger	Valuation View	Subtype Val	Man.Pstgs Not Allwd	AcctgPrinc of Ledger
0C	Management Accounting	[ ]	Extension Ledger	Line items wit...	0L	Legal Valuation		[x]	
0E	Commitment/Prediction	[ ]	Extension Ledger	Line items wit...	0L	Legal Valuation		[x]	
0L	Ledger 0L	[x]	Standard Ledger			Legal Valuation		[ ]	
2L	Ledger 2L	[ ]	Standard Ledger			Legal Valuation		[ ]	IFRS
3L	Ledger 3L	[ ]	Standard Ledger			Legal Valuation		[ ]	USGP
4G	Ledger 4G	[ ]	Standard Ledger			Group Valuation		[ ]	

Ledger – Accounting Principles

- **Ledger**
  - carries ledger specific configuration (currency types, document numbers, fiscal year variant, …)
  - contains transaction data in the Universal Journal
  - posting within Accounting are done for one/several/all ledgers
  - accounting closing processes run for one/several/all ledgers
  - reports in accounting are started per ledger

- **Accounting Principle**
  - carries business configuration
  - cloud content for Accounting Principle of each country
  - for compatibility reason accounting principle still can be used for integration from outside Accounting (ledgers are derived)

Assignment

- Accounting Principle are assigned per ledger or ledger/ company code combination
- the same accounting principle can be assigned to several ledgers (e.g. extension ledgers with the same accounting principles)

Assigning Accounting Principles

Corporate Accounting Principle

- can only be changed if **no** postings have been made in any company code
- if parallel ledgers are used, the corporate accounting principle shall be assigned to the leading ledger

Local Accounting Principle(s)

- can only be changed on company code level if **no** postings exist in the relevant company code

S/4HANA Cloud Assign Accounting Principles to Ledgers and Company Codes

Dialog Structure

- Assignment of Accounting Principle to Ledger
  - Assignment of Accounting Principle to Company Code

Assignment of Accounting Principle to Ledger

Ld	Ledger Name	Leading	Corp AccPr	Name of Accounting Principle
0L	Ledger 0L	☑	IFRS	International Financial Reporting Standards
2L	Ledger 2L	☐		

Assignment of Accounting Principle to Company Code for Ledger 2L

CoCd	Company Name	AP Ledger/CoCode	Name of Accounting Principle
1040	New Comp.Code 1040	DEAP	Germany GAAP
1110	Company Code 1110	GBAP	United Kingdom GAAP
1210	Company Code 1210	FRAP	France GAAP

Currencies

- Currencies and related information are stored in the system as **currency types**.
- The **currency code** (such as USD or EUR) and the **translation method** (for example, using the current Reuters exchange rate or the central bank rate) are assigned to the currency types.
- Currency Types
  - **Transaction Currency (00)** – currency in which a document is posted
  - **Company Code Currency (10)** – is already predefined in the system and is always the national currency of the company code
  - **Group Currency (30)** – used as the global currency, which allows amounts to be compared in a single currency
    Is specified before system is installed, applies for each client and consequently for all company codes and ledgers.
  - **Freely-Defined Currency** – if needed, customers can configure their own currency type
  - **Object Currency** – projects, support a separate currency specified in their master data
  - **Functional Currency** – specifies the currency of your primary economic environment. The company code, group, or freely-defined currency can be used as functional currency. Is the same for all ledgers in a company code and is defined on leading-ledger level.
  - OP/PCE offers up to 8 freely defined currencies, Public Cloud only 1 for a total of 3 currencies per ledger

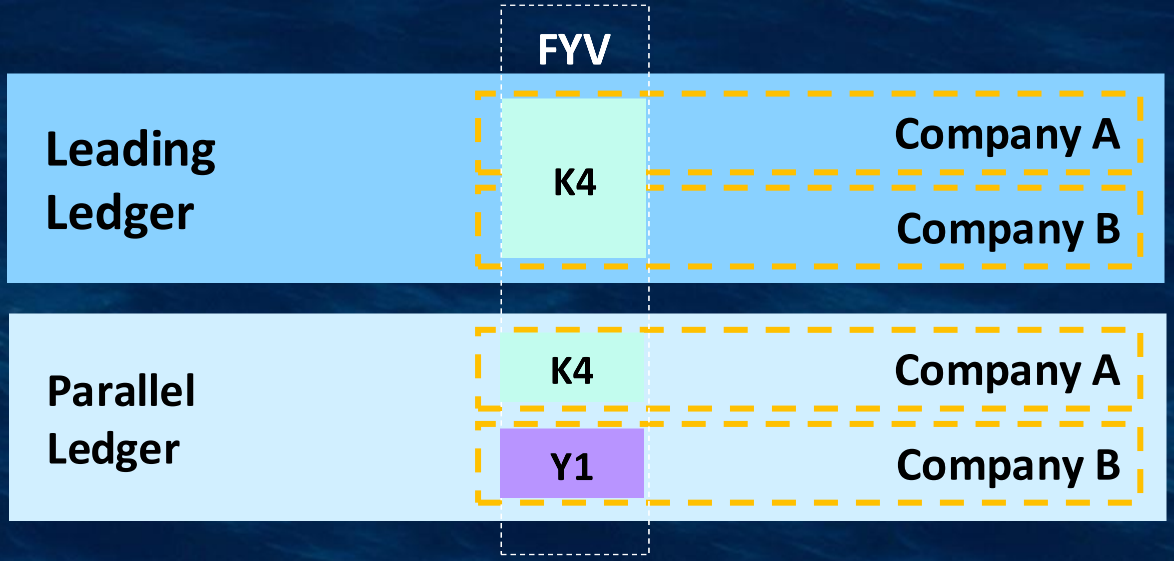
Company Code Settings for the Ledger

	Ld	Ledger Name	CoCd	Company Name	Company Code Crcy(10)	Group Crcy(30)	Freely Defined Currency Type	Freely Defined Currency Code
☐	0L	Ledger 0L	1090	New Comp.Code 1090	EUR	USD		
☐	0L	Ledger 0L	1110	Company Code 1110	GBP	USD		
☐	0L	Ledger 0L	1210	Company Code 1210	EUR	USD		
☐	0L	Ledger 0L	1250	New Comp.Code 1250	EUR	USD		
☐	0L	Ledger 0L	1310	Company Code 1310	CNY	USD		
☐	0L	Ledger 0L	1401	BR Brazil	BRL	USD		
☐	0L	Ledger 0L	1410	Company Code 1410	BRL	USD		

Alternative Fiscal Year Variants

- If your company operates in different countries or regions, you may be legally required to use different fiscal years for your local reporting and for your central reporting on group level.
- To achieve this, you can use an alternative fiscal year variant in addition to the common fiscal year variant that is assigned to your leading ledger.

- Leading ledger: one fiscal year variant for all company codes – global setting, fixed at scoping
- Non-leading ledgers: an alternative FYV can be assigned per company code (with a local accounting principle)
- All FYVs must share identical period start and end dates – periods of equal length → 4-4-5 pattern: only as the sole FYV – it cannot be used as an alternative FYV
- Assign a separate posting period variant to close leading and non-leading ledgers independently



FYV	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
K4	1	2	3	4	5	6	7	8	9	10	11	12
K4	1	2	3	4	5	6	7	8	9	10	11	12
Y1	10	11	12	1	2	3	4	5	6	7	8	9

Public Cloud vs. Private Cloud / On-Premise at a glance

Dimension	S/4HANA Cloud Public Edition	Private Cloud / On-Premise
Universal Parallel Accounting	Always active (standard)	Optional – activated via business function
Currencies per ledger	Up to 3	Up to 10
Parallel accounting	Ledger approach only	Ledger approach (accounts approach legacy)
Legal valuation standard ledgers	Up to 3 (0L + up to 2 non-leading)	Flexible; configured in the system
Parallel valuations	Legal + Group Valuation, Single-valuation ledgers	Legal + Profit Center + Group Valuation, Single-valuation ledgers (with UPA), Multi-valuation leading ledger (without UPA)
Configuration	Scoping / Central Business Configuration	IMG (SPRO) + SAP Best Practices

Common foundation: Universal Journal, parallel ledgers, and single source of truth apply to every deployment.

Management Accounting Specifics

Extension Ledger: Use Case Management View

- Extension Ledgers inherit the configuration settings of the underlying ledger.
- They don’t store postings made to the underlying ledger but only the manual postings made directly to them.
- Reporting on extension ledgers always includes the data from the underlying ledger although it is not physically stored in the extension ledger.
- Extension ledgers that are based on a standard ledger thus have a smaller data footprint than two parallel standard ledgers.

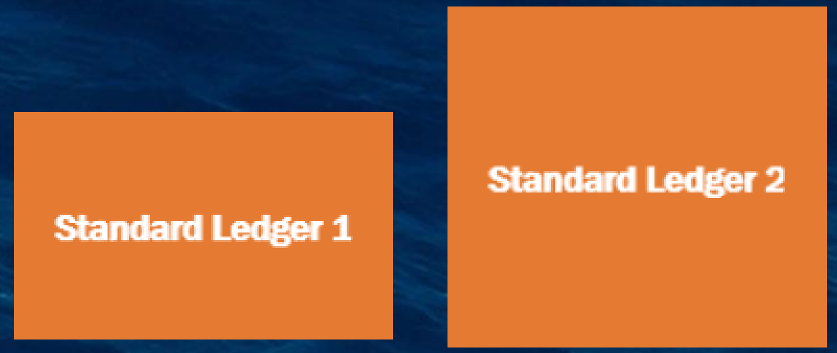
Full Ledger Approach

Legal Ledger

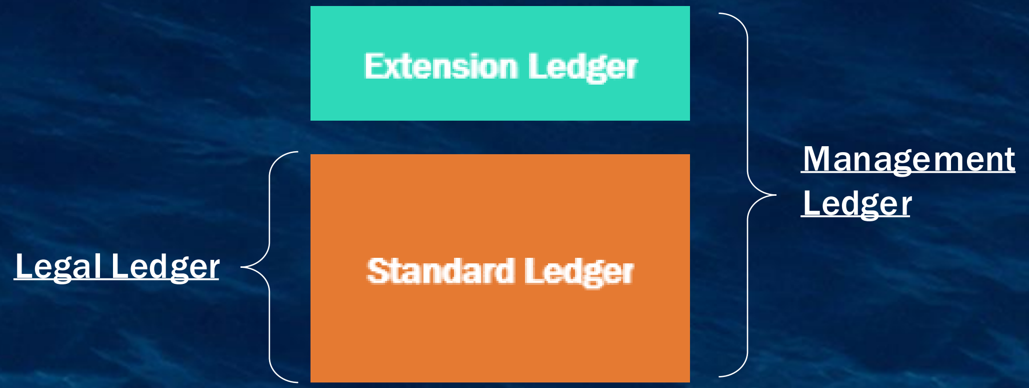
Management Ledger

- same legal data (95 %)
- few adjustments (5%)

→ high data redundancy



Extension Ledger Approach



Extension Ledger: Basic Principle

- **Write Access**

- postings valid for extension ledger only
- postings valid for both
- standard and extension ledger

Extension Ledger

Standard Ledger

Read Access

from standard ledger

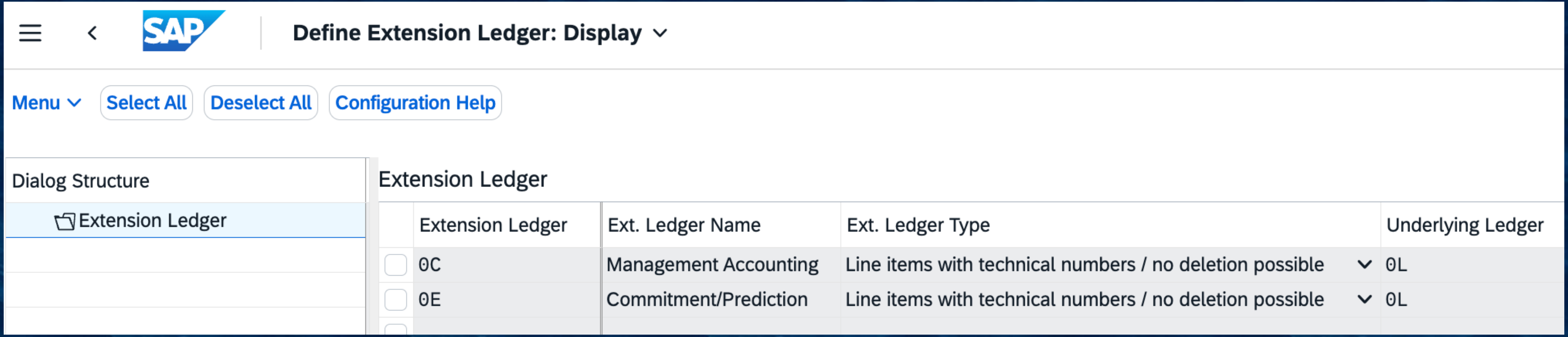
select standard ledger

from extension ledger

select both standard and extension ledger

Extension Ledger – Standard Cloud Content and Configuration Options

- The following 2 extension ledgers are part of cloud standard content and can be activated via scoping
  - ledger 0C - Statistical Sales Conditions (34B)
  - ledger 0E - Accounting for Incoming Sales Orders (2FD, 4V7, 2I3, 4Q0)
- It is possible to create an extension ledger via the ***Define Extension Ledger*** configuration activity
- To define a new extension ledger, specify the underlying ledger as well as the extension ledger type
- The extension ledger type indicates what type of journal entries can be posted to this extension ledger



Parallel Value Flows in Management Accounting

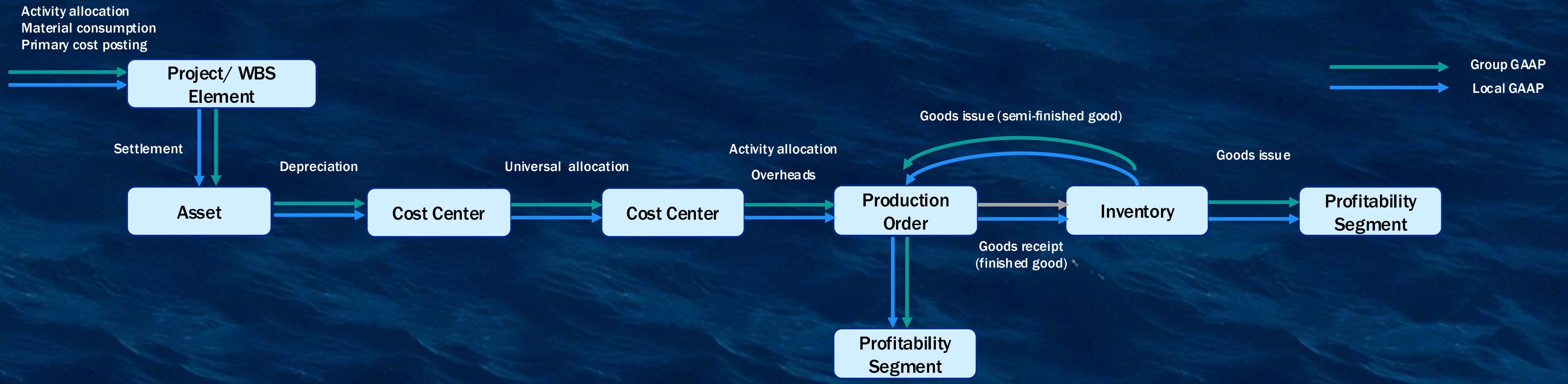
Sources for differences between GAAPs

- Different capitalization rules per GAAP for materials
- Different depreciation keys/useful life…
- Ledger-specific postings, e.g. provisions

impact on follow-on processes

- Allocations, Overheads, Activity Allocations
- WIP, Variance Analysis
- Actual Costing
- …

E2E Value Flow - Example

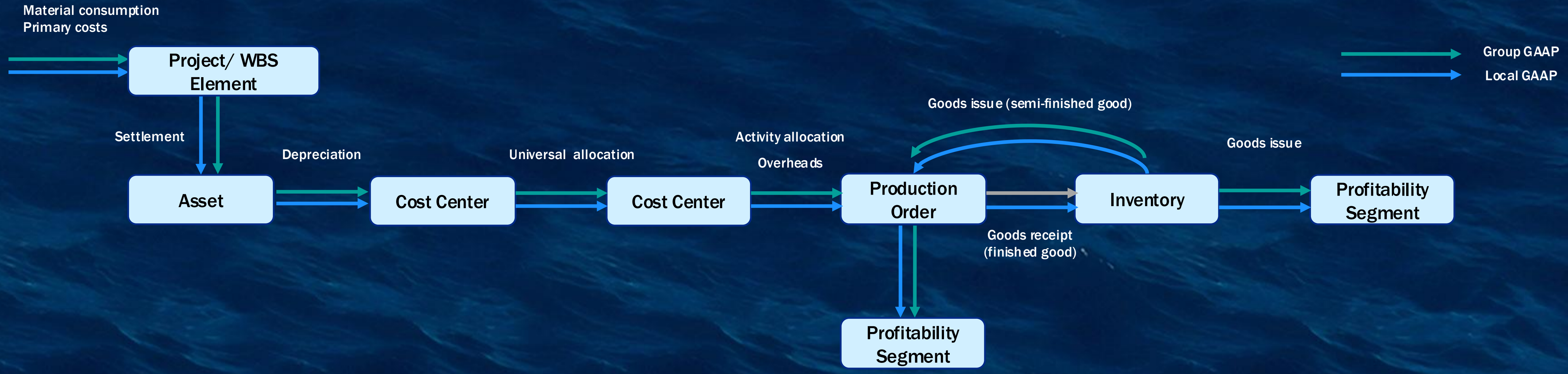


Parallel Value Flows in Management Accounting

activity allocation

- Cost rates can be defined per ledger or ledger independent >> this is an optional functionality!
  It is also possible to define a different cost rate just for a dedicated ledger and use the ledger-independent cost rate for all other ledgers.
- Quantities are always ledger independent!
- Posted values are calculated per ledger
- Intercompany margins will not be posted in group valuation ledger

Activity allocation



Parallel Value Flows in Management Accounting

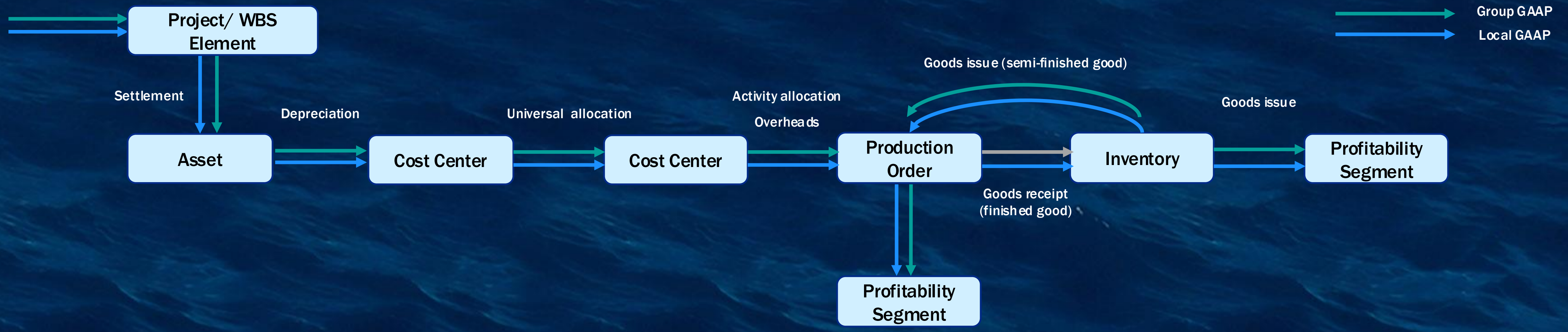
material postings

- Material prices/ values are ledger dependent (standard and moving average prices)
- Standard prices can be calculated per ledger or ledger-independent
- Actual material prices will be calculated per ledger (to use actual costing, scope item 33Q needs to be activated)
- Intercompany margins will be eliminated in the group valuation ledger
- Planned costs for production orders can be calculated per ledger or ledger-independent
- WIP values and production variances are ledger dependent

Activity allocation

Material consumption

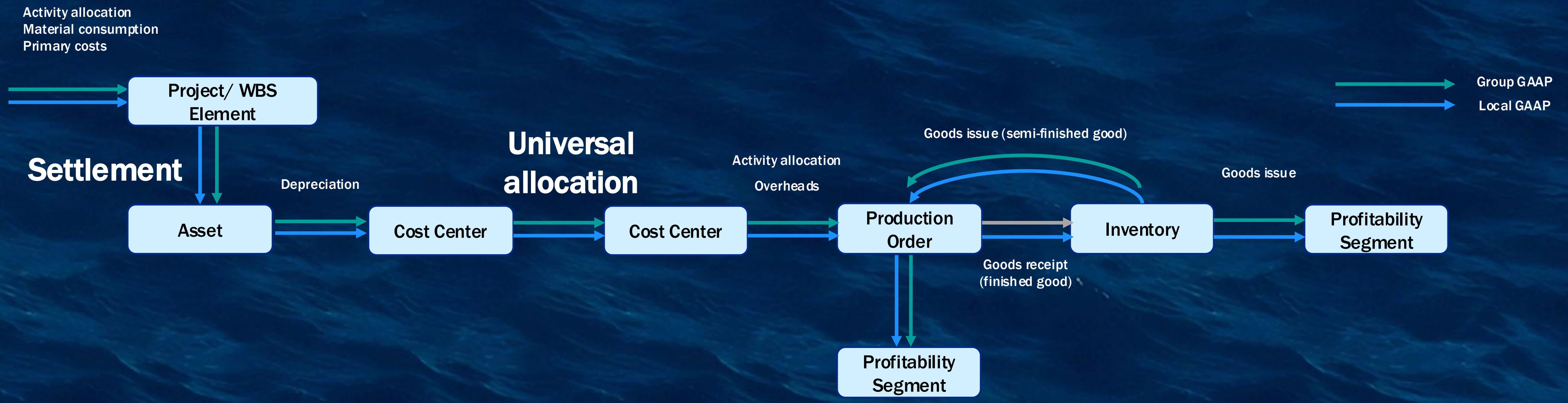
Primary costs



Parallel Value Flows in Management Accounting

settlement, universal allocation

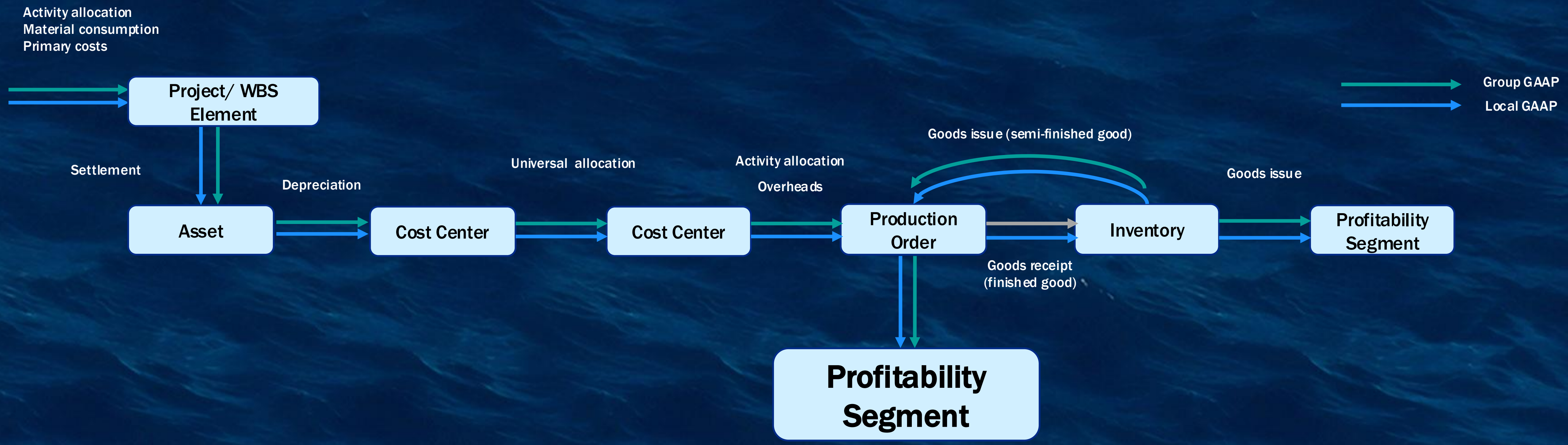
- Values for settlement and universal allocation will be calculated per ledger. Results will be posted per ledger. This ensures a balance of zero for the sender in each ledger.
- If needed, settlement rules can be defined ledger-dependent
- For universal allocation, intra-company allocation cycles must be defined ledger-dependent
- Period end closing will run per ledger. It is possible to start a period-end-run for several ledgers in one go



Parallel Value Flows in Management Accounting

margin analysis

- Cost of goods sold (COGS) are valuated per ledger
- Sales invoicing posts ledger-independent but revenue adjustments resulting from revenue recognition can lead to different revenues for different ledgers
- Extension ledger 0C can be used to post statistical sales conditions and other manual cost adjustments
- Margin reporting is ledger-dependent



Best Practices for a future-proof setup in S/4HANA Private Cloud

Designing today for a smooth future UPA migration

- Create as few ledgers and currencies as possible – ideally only legal ledgers with up to 3 integrated currencies (10, 30 + X)
- Do not use multi valuation ledgers if possible → no parallel valuation if it can be avoided until you activate UPA
- Keep parallel currencies aligned across GL (ACDOCA & BSEG), Asset Accounting and Material Ledger today
- Use currency type 30 in your controlling area
- Do not use the accounts approach, classic profit center accounting, business areas or costing-based CO-PA
- Assign the corporate accounting principle to leading ledger 0L now
- Model local GAAP on non-leading ledgers per company code – the target UPA layout
- Use country-specific accounting principles for your local ledgers in order to be compatible with future configuration needs e.g., in asset accounting
- Check which industry solutions are supported by UPA currently and avoid others
- Keep a single controlling area; avoid multiple controlling areas for different fiscal year calendars
- Use a consistent (ideally calendar-year) fiscal year variant so no structural redesign is needed later

Result: customers who follow the recommended setup migrate to UPA with minimal, mostly process rework rather than a rebuild

Resources

- Blog post: https://community.sap.com/t5/enterprise-resource-planning-blog-posts-by-sap/ledger-setup-and-its-role-in-management-accounting-in-sap-s-4hana-cloud/ba-p/14299804
- Note 3530183: https://me.sap.com/notes/3530183
- SAP Help: https://help.sap.com/docs/SAP_S4HANA_CLOUD/0fa84c9d9c634132b7c4abb9ffdd8f06/fbf38d5377a0ec23e10000000a174cb4.html?locale=en-US

Questions & Answers

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FAQ

- Can I set up new ledgers after postings have been done?
- No, you need to decide about the ledgers you require as part of your initial scoping activities. Subsequently adding a ledger is currently not supported in S/4HANA Cloud. Please be aware of this when doing the initial scoping and consider the impact of scoping or not scoping additional ledgers.

- Can I change the accounting principle assignment after postings have been done?
- No, changing the accounting principle for ledgers and Company Codes where you have already made postings is not possible.

- What is the difference between leading and non-leading ledgers?
- The leading ledger has a special role since it e.g. is used as a basis for intercompany billing and preliminary cost estimates and is the only ledger with gapless number ranges. There is only one leading ledger, the other ledgers are non-leading ledgers.

- What is meant by Corporate Accounting Principle?
- This is the accounting principle according to you need to report on group level. Example: Your company is situated in Brazil but its headquarter is in US. So your Corporate Accounting Principle would most probably be US GAAP.

- What is meant by Local Accounting Principle?
- This is the accounting principle according to which a legal entity needs to be report to the local authorities. Example: Your company is situated in Brazil but its headquarter is in US. So your Local Accounting Principle would most probably be Brazilian GAAP.

- When do I need a standard ledger, when is an extension ledger sufficient?
- If you only need a possibility to do manual postings and the basic settings such as fiscal year variant, currencies and accounting principle can be derived from an underlying standard ledger, an extension ledger might be sufficient. However, if you would like to use a different fiscal year variant, currency set-up, accounting principle and/or would like to get integrated postings e.g. from asset accounting into this ledger, you might rather need a standard ledger.

Thanks for attending this session!

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