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Driving Efficiency in Bank Reconciliation through Cash Account Type in SAP S4HANA

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Article Info

Abstract

Banking Institutions offer a wide range of benefits to commercial organizations due to various reasons such as large amount of working capital that the organizations deposit in their accounts, issuing Overdrafts or loans and earning interest, working as their investment banker and charging fee for the services provide etc. Organizations on the other hand also would like to maintain their bank accounts in various financial institutions locally and internationally for facilitating various transactions such as receiving funds form customers, paying supplier invoices etc whereas accurate bank reconciliation and knowing the cash position for each account and as a whole can be very challenging due to volume of transactions that each of these bank accounts manage in any given business day. Hence SAP has introduced new GL Account Type "C" which is "Cash Account" in S4HANA Version 2020 to streamline and enhance cash management and bank reconciliation. This article provides insights into how SAP's broader vision of intelligent finance operations, modernizing cash processes and real-time financial reporting can be achieved by implementing GL Account Type "C-Cash Account"

1. Introduction

Organizations usually maintain a complex GL Structure in their ERP Systems to manage their bank accounts with various financial institutions. This complex GL structure requires multiple sets of GL Accounts for each bank account resulting in hundreds or thousands of General Ledger Master Records to be created based on the number of bank accounts and types of transactions that each bank account manage. Reporting would also become complex due to the volume of General Ledger Master Record.

Example: A bank account handles 8 types of transactions such as receiving amounts from Customers through ACH, Wire and Checks, paying suppliers in ACH, Wire and Checks and any other Miscellaneous receipts and payments. Say an organization has 100 Bank Accounts. This organization end up creating 800 General Ledger Master Records (100 Bank Accounts X 8 Types of transactions for each bank account) for tracking activities and determining cash position under each bank account.

Posting transactions for all the bank accounts using one set of GL Accounts may give insights into overall cash position, but it would not provide similar insights for each bank account whereas knowing cash position for each bank account is a crucial need for treasury and financial operations to make decisions such as moving amounts from high balance accounts to low balance accounts, diverting funds available more than financial needs in a bank account to investments etc.
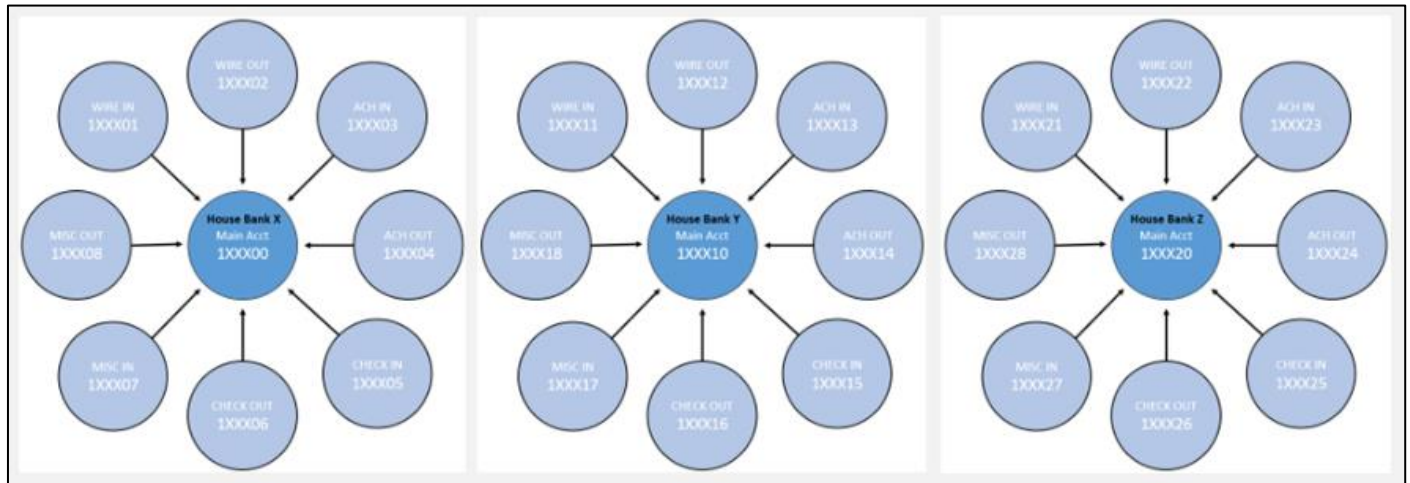
Fig 1: Complex GL Structure requiring 24 Bank Clearing and 3 Main General Ledger Master Records for Three Bank Accounts

Innovative G/L Account Type "C-Cash Account":
SAP has introduced an innovative new General Ledger Account Type "C-Cash Account" as part of S4HANA Version 2020. It's a significant improvement in addressing the need for maintaining complex GL Structure in the older versions of SAP for Cash and Bank Reconciliation. Below are the benefits offered by G/L Account Type "C-Cash Account".

1. **Efficient GL Structure:** It eliminates the need for creating multiple sets of General Ledger master records resulting in modest and qualitative General Ledger Structure and eliminating manual effort needed for setting up new General Ledger accounts while onboarding new bank accounts.

2. **Operational Efficiency:** Users were forced to remember or spend additional time for identifying the GL Accounts responsible for each bank account while posting transactions in the older versions of SAP. Its not needed anymore. Since only one set of GL Accounts are needed under the new design irrespective of number of bank accounts that are operational, so they use the same set of GL Accounts while posting transactions for any bank account.

3. **Simplified Reporting:** Cash and Bank Reconciliation and its reporting is pretty straight forward with this design. Users always refer to one set of GL Accounts for their Cash and Bank Reconciliation and its reporting instead of referring thousands of GL Accounts in the older versions of SAP. Whenever new GL Accounts are created, these GL accounts are to be configured in the custom reports. Since the new design uses only one set of GL Accounts, no more changes are needed whenever new bank accounts are onboarded into S4.

4. **Cash Position:** Knowing the cash position for each bank account is always a challenge when there are many bank accounts. Cash Account Type has addressed this issue and cash position for any bank account can be generated at any point of time. This would help management in taking crucial decisions such as diverting surplus funds from bank accounts to investments, funding low balance accounts to maintain working capital requirements etc.
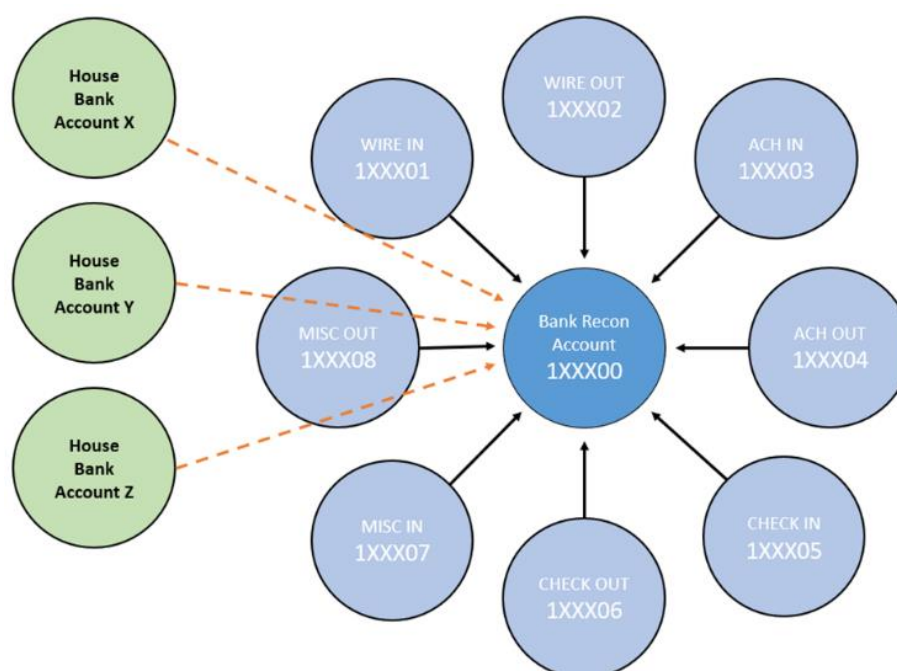
Fig 2: Simple GL Structure requiring just 8 Bank Clearing and 3 Main General Ledger Master Records for Three Bank Accounts.

Cash Account Type Configuration:
SAP had below G/L Account types until S4HANA Version 2020.
1. N – Non-Operating Expense or Income
2. P – Primary Costs or Revenue
3. S – Secondary Costs
4. X – Balance Sheet Account

SAP has introduced new G/L Account Type "C-Cash Account" in S4HANA Version 2020. The way G/L Accounts are created for Cash and Bank Reconciliation are slightly different than how we create other G/L Accounts since we need to capture some more additional attributes while creating these General Ledger Accounts. Under this design, we need to designate one main GL Account as "Bank Reconciliation Account" and bank clearing GL Accounts as "Bank Subaccount" using field "G/L Acct Subtype" which is enabled only while creating G/L Accounts using G/L Account Type "C-Cash Account".

Fig 3A: Creating Main Bank G/L Account with G/L Account Type "C-Cash Account" and marking it as 'B-Bank Reconciliation Account" using G/L Account Subtype.

Fig 3B: Creating Bank Clearing Account for Wire with G/L Account Type "C-Cash Account", marking it as 'S-Bank Sub Account" using G/L Account Subtype and linking both main bank account and clearing account.

House Bank Represents Banking Institution and Account ID or House Bank Account represents bank account under a banking institution. Main Bank G/L Account is to be assigned to House Bank Account so that system can post all the transactions under this bank account to this Main bank G/L Account. This setting is no different from previous versions of SAP, but instead of creating and assigning separate main bank G/L Accounts for each bank account, we can assign the same main bank G/L Account for all the bank accounts.

Fig 4: Assignment of Main Bank G/L Account to Bank Account created under House Bank.

Cash Account Type requires few more one-time additional configurations to be made. This includes

1. Marking "Account Symbol" while creating it for bank clearing account as "SIP (Self-Initiated Payments)

Relevant", meaning system can auto determine this bank clearing account for a payment method while initiating payments.

Fig 5: Marking Account Symbol created for Bank Clearing Account as "SIP Relevant".

2. Assigning Account Symbol to Country and Payment Method so that system can use Bank Clearing Account

associated with this account symbol while initiating payments.

Fig 6: Assignment of Account Symbol to Country and Payment Method combination.

Automatic Payment Program configuration requires bank sub account G/L to be assigned to House Bank, Payment Method, Currency and Account ID Combination. Under this design, we create an entry for House Bank, Payment Method,

Currency and Account ID but not bank sub account G/L assignment is needed since that is derived based on previously discussed configurations.

Fig 7: Configuration that does not need bank subaccount GL Account to be specified.

How Cash Account Type works
When Cash Account Type functionality is implemented, system mandates users to enter House Bank and Account ID for every transaction posted to the cash and bank GL Accounts. System can auto determine House Bank and Account ID for various automated posting such as Automatic Payments, Lockbox, Electronic Bank Statement etc whereas User has to enter House Bank and Account ID for manual postings. This way system stores House Bank and Account ID for each line item posted to Cash and Bank Accounts. House Bank and Account ID are now available in various reports so that these two parameters can be used to get reporting or cash position for various bank accounts.

Conclusion
Implementing Cash Account Type in SAP S4HANA would be a strategic shift for the organizations planning to simplify GL Structure, modernize financial operations, drive efficiency in reporting, eliminate manual effort and scope for erroneous transactions and revolutionize cash and bank reconciliation process. Simple and efficient GL structure for cash and bank transactions brings in sustainable and long-term value to the organization. Onboarding new bank accounts will be hassle free as we no longer need to involve finance or controllership team to approve or create new set of GL Accounts.

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