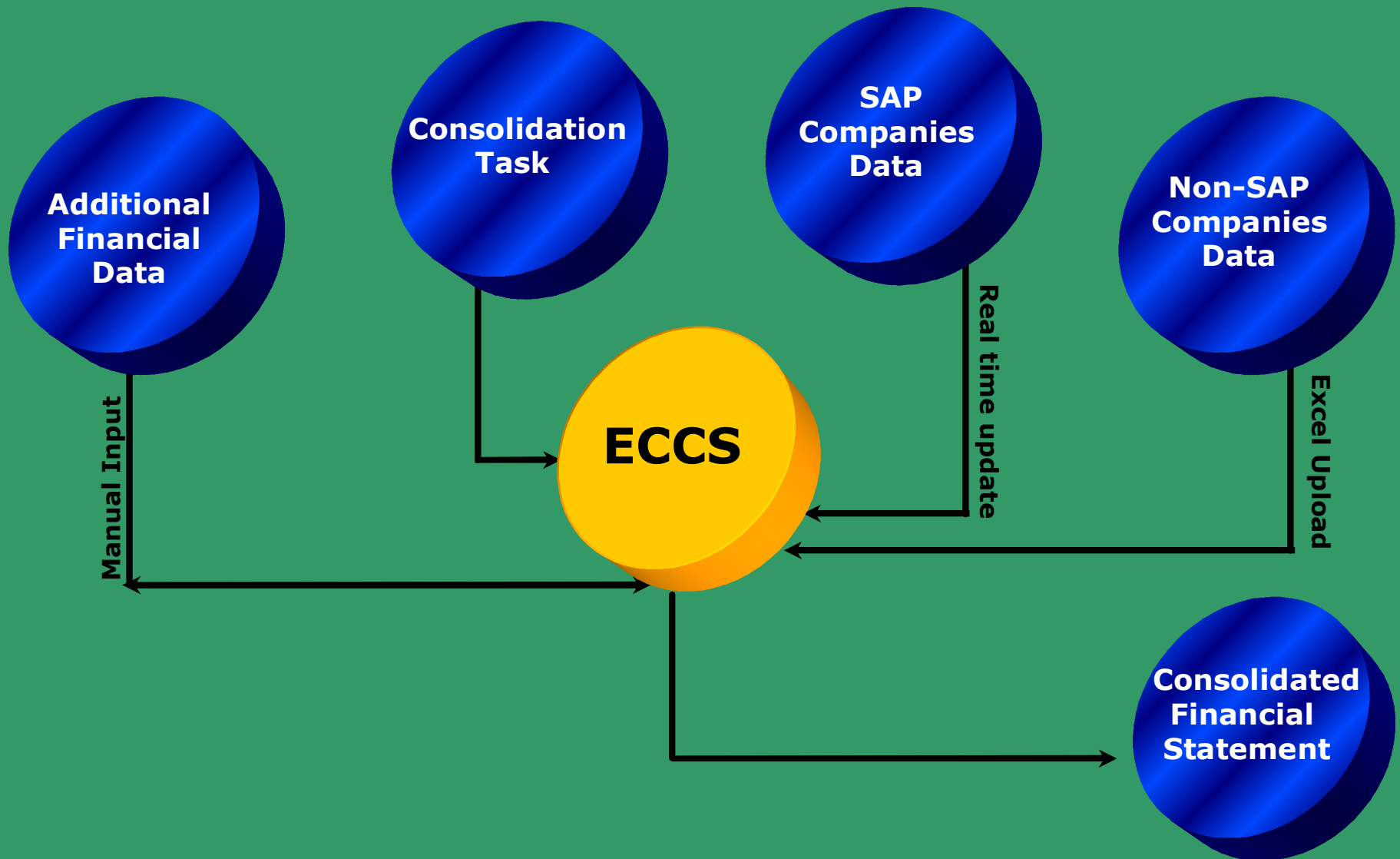# OVERVIEW OF

ENTERPRISE CONTROLLING-CONSOLIDATION SYSTEM (ECCS)

DEFINITION

Consolidation is the process of combining the individual financial statement data of relevant companies in order to prepare 'Consolidated Financial Statements (CFS)' for the 'Group' to show its financial position as a single business entity. The consolidated financial statements include the financial statements of the company and enterprises controlled by it i.e its subsidiaries and the share in profits of associates.

The process at high level involves performance of tasks such as

❑ Inter-unit eliminations of receivables, payables, revenues, expenses etc.

❑ Consolidation of Investments and accounting for the minority interest

❑ Translations of the statements under relevant currencies.

❑ Reports Generation

DEFINITION

The objective of the consolidation component is to create consolidated financial statements consisting of Balance Sheet, Profit and Loss Statement, and Cash Flow Statement and to provide the timely information to the management. EC-CS significantly accelerates the consolidation process with its automatic functions for currency translation, inter unit elimination and consolidation of investments .The Consolidation process is performed in the Consolidation Component of SAP R/3 EC CS module.

GLOBAL PARAMETER

- ❑ Global parameters are important settings for EC-CS that typically remain the same for a work session.

- ❑ These parameters are saved for a particular the user when he/she logs off, and are automatically used when he/she logs back on. However, the parameters can be changed as and when required.

- ❑ When you run a function, the information saved as a your global parameters are either proposed by default, or set in the background (in which they cannot be specified directly for the function).

- ❑ The global parameters are displayed in a status row at the top of every screen in Customizing and the consolidation functions.

- ❑ In Customizing, the parameters that are relevant for the current maintenance are displayed in a different color. For example, maintenance of financial statement items is dependent on the consolidation chart of accounts, but not on the version.

GLOBAL PARAMETER

Cons groups	FS Item	Data Monitor	Cons Monitor	Info System	Parameters

Global Parameter		
Dimension	01	Legal
Version	100	Actual Data
Year	2006	
Period	012	
Cons C/A	01	Plan
Ledger	AUS	AUD

DIMENSION

❑　A dimension defines the specific characteristic in-group reporting. Dimensions include consolidation types such as company consolidation, business area consolidation, or profit centre consolidation.

❑　Standard, Conventions & Rules

- ❖　The requirement for consolidation is to be able to consolidate from a legal view and a management view. Legal View will be based on companies and Management View based on profit centres.
- ❖　SAP delivers a standard dimension for companies and a standard dimension for profit centres. These are:
- ❖　01 for companies
- ❖　03 for profit centres

❑　A given dimension can represent one or more consolidation types. You typically use one dimension for each consolidation type. Dimensions are specific views on group reporting. In a dimension, you define the group structure as a hierarchy of consolidation units and groups. You can manage several dimensions in parallel in the system.

❑　Dimension Independent are
- ❖　Organisation Units
- ❖　Control Data such as Tasks and Methods

❑　Dimension Dependent Data are
- ❖　Consolidated Chart of Accounts
- ❖　Consolidation Version

HIERARCHY

❑ Hierarchies are structured sets of consolidation units and consolidation groups. They are defined by their top-most consolidation group.

❑ Any consolidation unit or group can exist in any number of hierarchies.

❑ In each dimension, you can define the hierarchy levels and arrange these levels into the desired sequence. You can then assign the levels to the consolidation groups of a hierarchy to clarify the hierarchy structure.

❑ Each hierarchy uses a part of this hierarchy level.
Each consolidation group is assigned to only one level.
In the example, hierarchy 2 consists of the levels group, strategic business unit, company, business area, and company/ business area

❑ You can create any number of hierarchy levels.

❑ The number of hierarchy levels can vary in different branches of the same hierarchy.

CONSOLIDATION GROUP

❑   A consolidation group is a user-defined combination of multiple consolidation units and/or consolidation groups for consolidation and reporting purposes. It represents the structure of the group.

❑   Consolidation groups and consolidation units are dependent on the dimension.

❑   Each consolidation unit can be included in different consolidation groups, and each consolidation group in turn can be included in different hierarchies.

❑   Since consolidation groups are dimension-dependent, the master data created for the consolidation groups is valid only in the relevant dimension

CONSOLIDATION UNITS & GROUPS
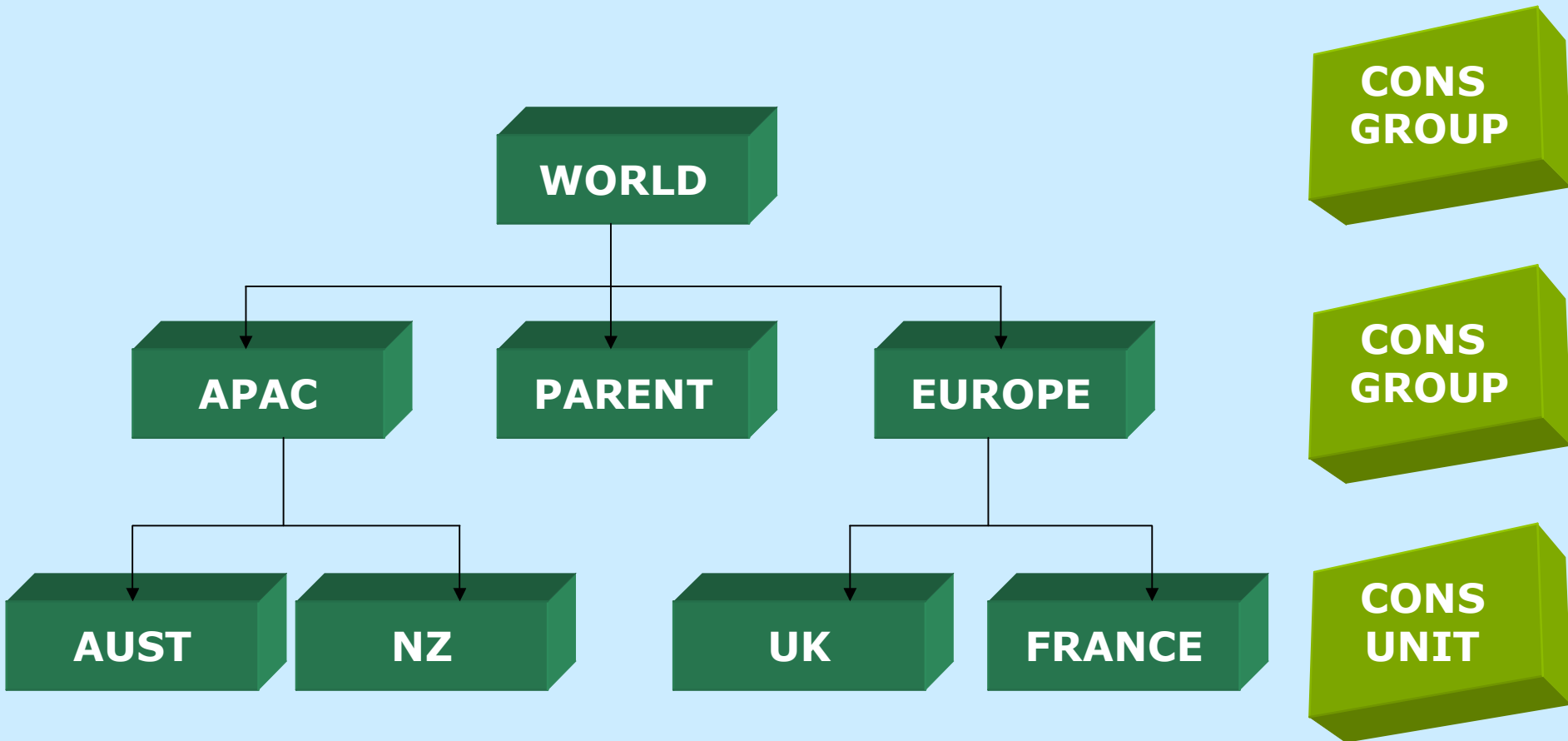
CONSOLIDATION UNIT

The consolidation unit is the smallest element of the group structure for which a complete consolidation can take place. Consolidation units are the equivalent of company codes in FI. They are linked in the consolidation hierarchy at the lowest node. Consolidation groups may be collections of various consolidation units.
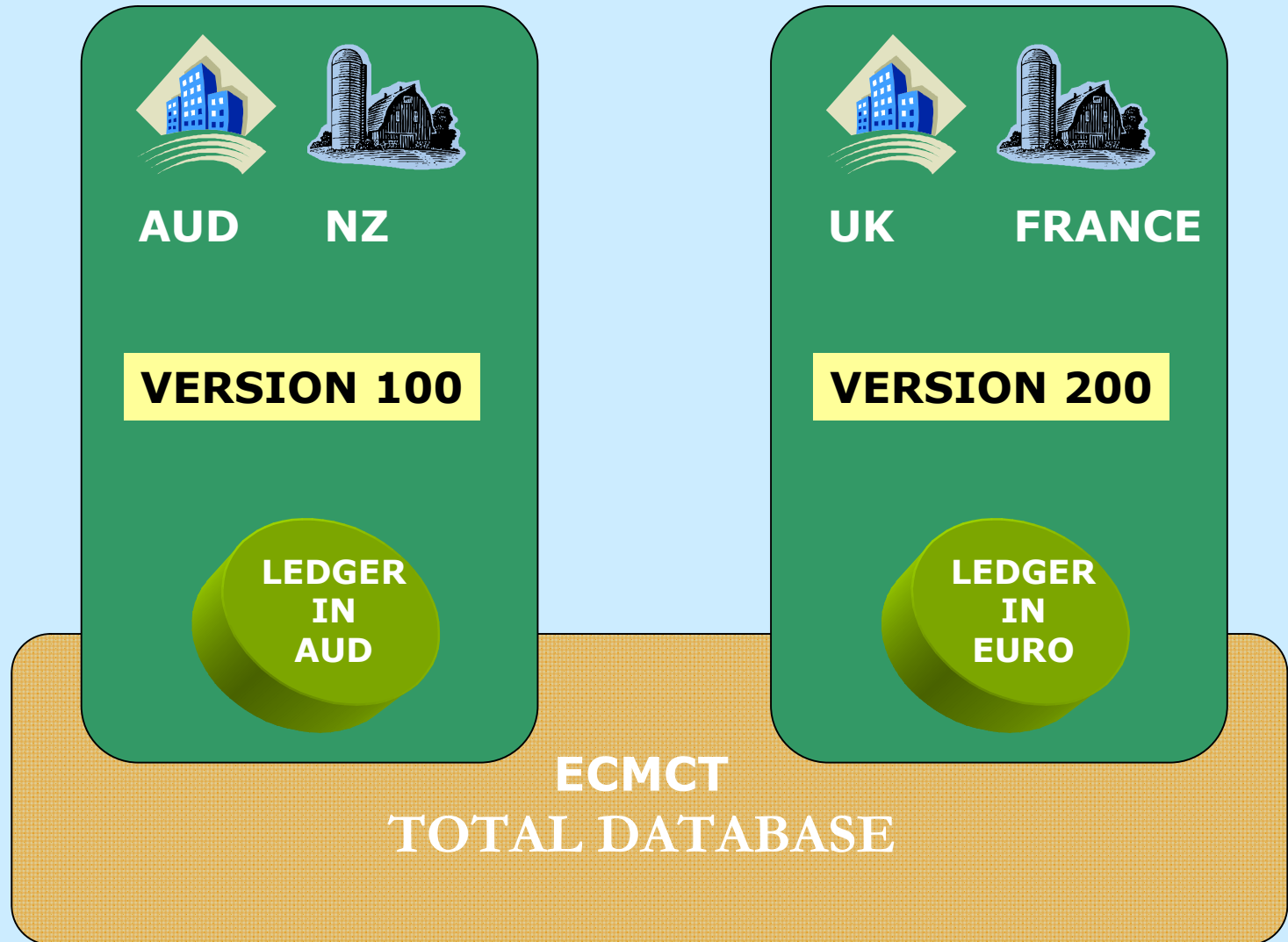
Information stored in the master data of a consolidation unit typically comprises of the following:

- ❑ Name and Address

- ❑ Country

- ❑ Language

- ❑ Local Currency

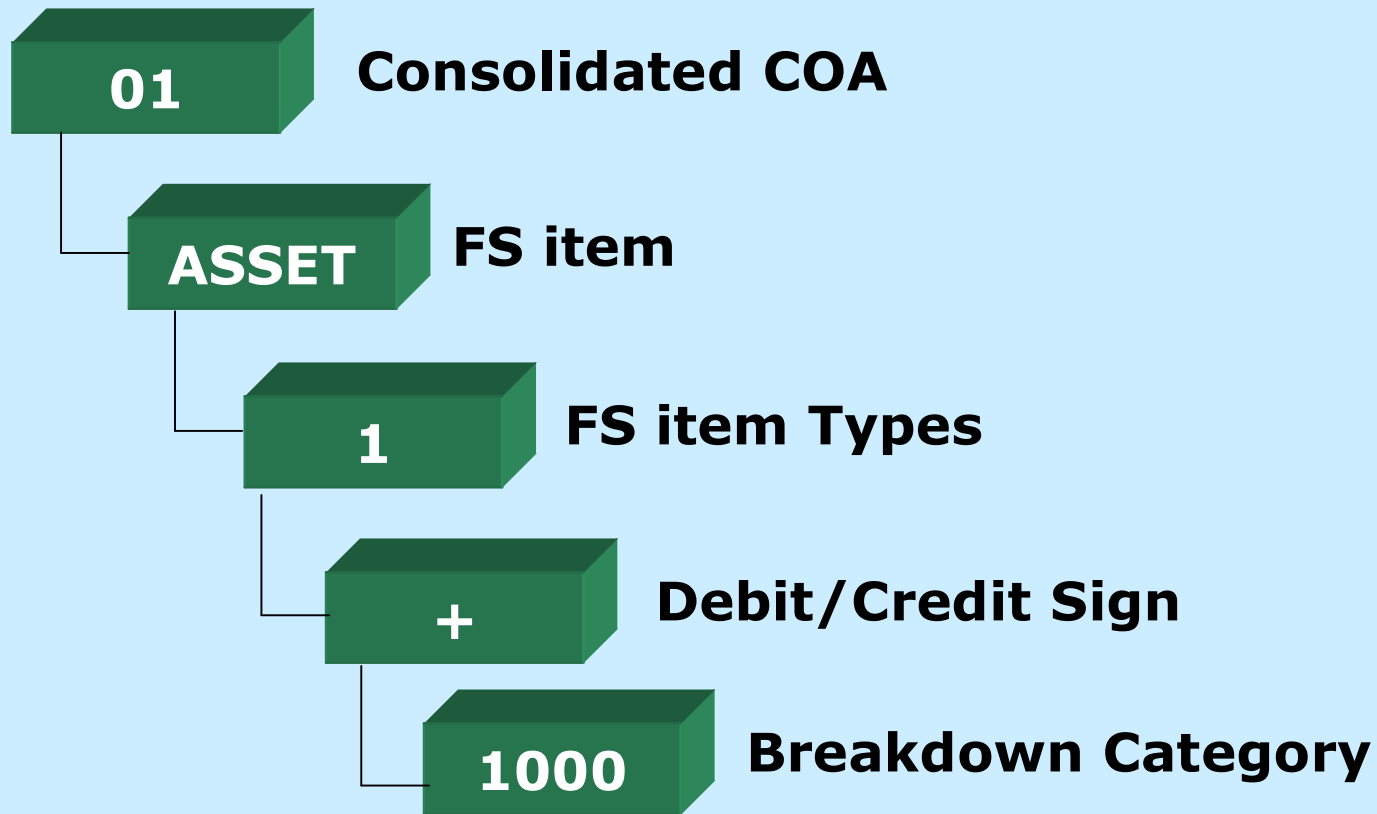- ❑ Means of data transfer

- ❑ Method of Currency Translation

CONSOLIDATED CHART OF ACCOUNTS

❑ In order to create consolidated financial statements, the transaction data of all the consolidation units included must be uniformly aggregated. For this purpose, the group headquarters provides all consolidation units with <u>one or more</u> consolidation charts of accounts. These charts of accounts structure the financial statement items in accordance with the internal and external requirements of the consolidated financial statements. In the consolidation chart of accounts, all financial statement items are arranged logically in an item hierarchy.

❑ The consolidation chart of accounts is client-dependent only. Therefore, you can use it in different dimensions.

❑ To allow the integrated transfer of reported financial data from SAP transaction applications, you must create a link between the G/L accounts and any secondary cost elements, and the consolidation financial statement items. When real time updating or rollup is used, the ID's of the transaction accounts are identical to the ID's of the FS items. When periodic extract is used, the financial statement version items and the consolidation items are identical. In order to ensure that the IDs correspond, you can create the consolidation chart of accounts from both the FI chart of accounts and the financial statement version.

CONSIDATION GROUP,LEDGER,VERSION

FINANCIAL STATEMENT ITEMS & ACCOUNT ASSIGNMENT

01 — Consolidated COA

ASSET — FS item

1 — FS item Types

+ — Debit/Credit Sign

1000 — Breakdown Category

DATA COLLECTION METHODS

Data collection from SAP Systems:

❑ Real time update from other application components within the same SAP system

❑ Rollup from an FI-SL ledger

❑ Rollup from another EC-CS component

❑ Periodic extract from FI-GL

❑ Periodic extract from R/2 (planned)

❑ Data collection from non-SAP systems:

❑ Flexible upload of data extracts from non-SAP systems

❑ MS Access offline data entry using an additional MS Excel interface

DATA COLLECTION METHOD
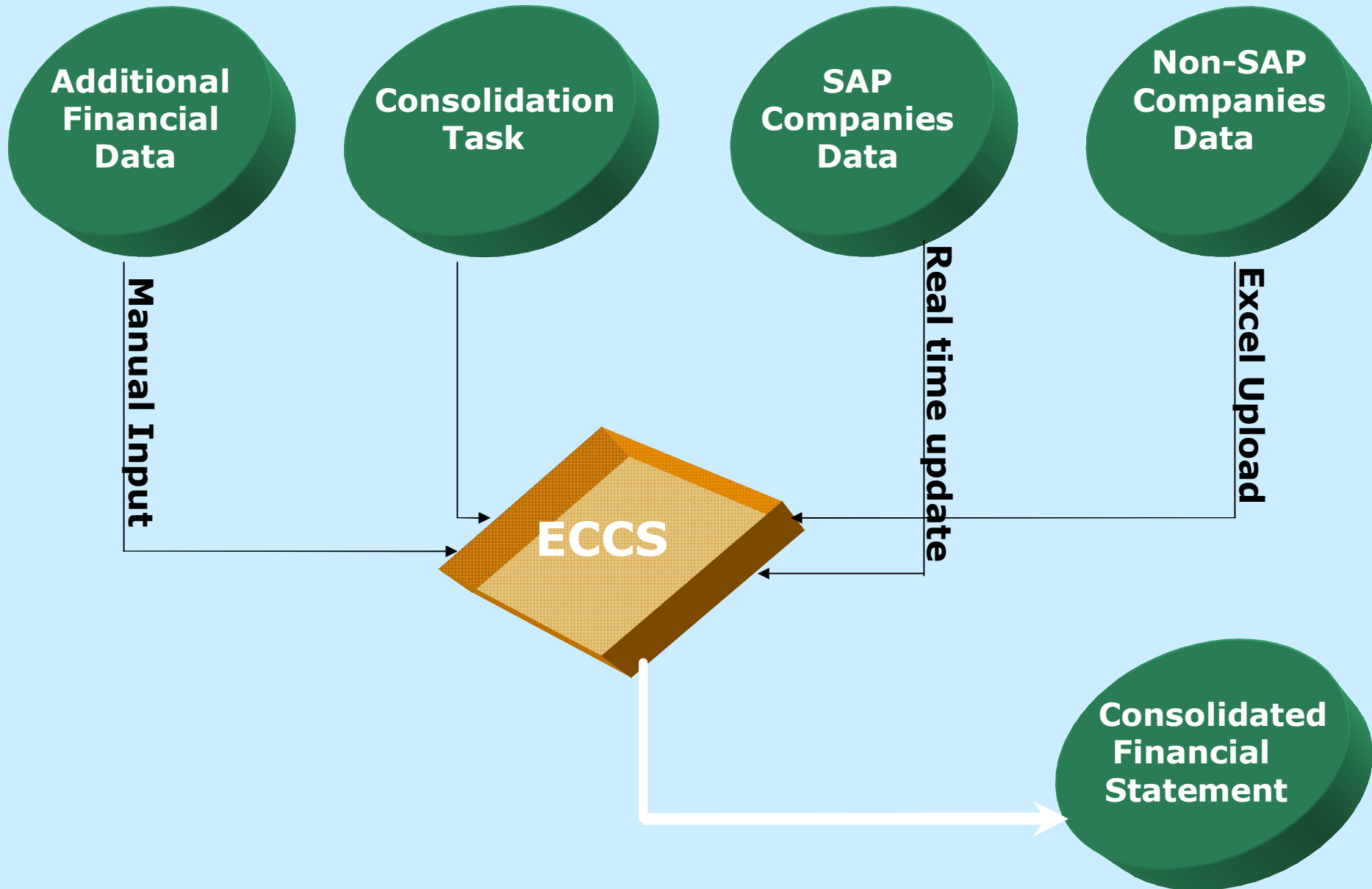
FLOW OF FINANCIAL DATA IN CONSOLIDATION

❑ Consolidation with the EC-CS component is based on totals data. This data is recorded using various data collection procedures and is stored in the totals table ECMCT.

❑ Additional financial data relevant for consolidation is also entered in separate tables. This additional data is not necessarily reported by consolidation units in their individual financial statements.

❑ All postings made during the consolidation process are saved as documents in the journal entry database ECMCA.

❑ The totals table ECMCT therefore includes the following: All data from the individual financial statements, changes or additions to this dataset as a result of any additional financial data reported Standardizing entries and Consolidation entries

CONSOLIDATED DATABASE

Task
Ledger
cons unit
version
year, period

Acquisition Year
Unit of
Measure

Doc Type
Cons Group

Cons COA
Item Category
Sub Item

Trans Currency
LOCAL Currency
Group Currency

INTER UNIT ELIMINATION OF PROFIT& LOSS

❑ You define tasks and methods for IU eliminations in Customizing. You should create a task for each of the inter unit consolidation procedures, for example, elimination of inter unit payables and receivables or revenue and expense. In a method, you specify which items are to be mutually eliminated and how you want to handle any resulting differences.

❑ You execute IU elimination tasks from the consolidation monitor. The system generates an elimination entry in the following cases:

❑ A consolidation unit reports a value for an FS item requiring elimination.

❑ Another consolidation unit is assigned as the trading partner for this value.

❑ You have specified that both of the above consolidation units are to be included in IU elimination.

❑ The system differentiates elimination entries according to trading partner relationships, as follows: A pair of consolidation units is always looked at and within this pair a pair of FS item sets

❑ Elimination documents contain an entry for each partner relationship, broken down by transaction currency, if requested

INTER UNIT ELIMINATION OF PROFIT& LOSS

❑ The system posts the values requiring elimination with a reversed debit/credit sign. A consolidation unit and a partner unit are posted against in each line.

❑ The document type of the elimination entry determines its posting level.

❑ You specify pairs of item sets for inter unit elimination in elimination method customizing. You can use more than one pair of item sets for each method

INTER UNIT ELIMINATION

Inter-unit Elimination functions are executed in order to neutralize transactions that have transpired between companies within the group. There are various types of eliminations that are described in detail below.

Inter-company receivables and payables are eliminated so as not to overstate the figures for the group as a whole. The items that are eliminated are:

- ❑ Inter-company Receivables
- ❑ Inter-company Payables

Inter-company long term loans taken and given are eliminated so as not to overstate the figures for the group as a whole. The items that are eliminated are:

- ❑ Long Term Loans Given
- ❑ Long Term Loans Taken

Inter-company revenue and cost of goods sold are eliminated so as not to overstate the figures for the group as a whole. The items that are eliminated are:
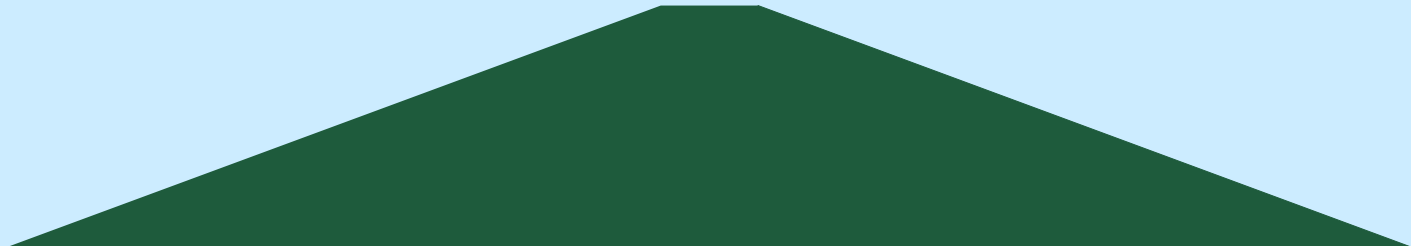
- ❑ Revenue
- ❑ COGS

ELIMINATION OF INTERUNIT PROFIT AND LOSS (PROCEDURE)

Aggregated balance sheet			
Fxd assts	250	Equity	280
IC receivables	100	IC payables	120
Inventory	50		
			400
400			
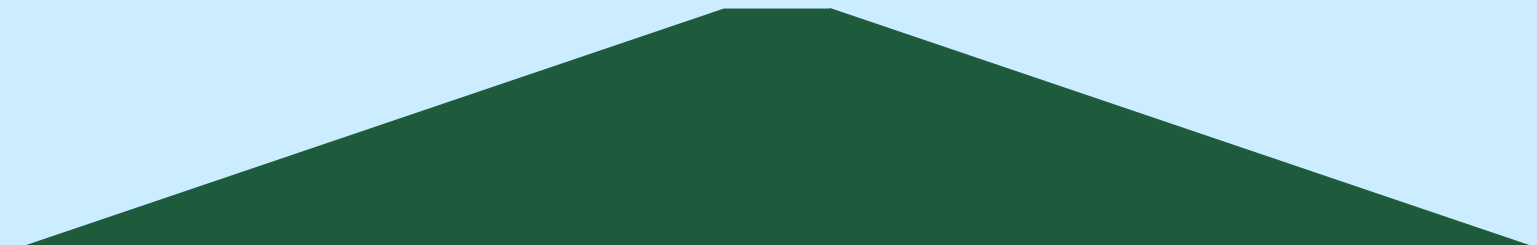
Group Balance Sheet			
Fxd assts	250	Equity	280
Inventory	50	Retained	20
400		400	

DATABASE PRIOR TO INTERUNIT ELIMINATION

FS Item	Value	Cons unit	Partner Unit
Receivables	1000	A	B
Receivables	500	B	A
Payables	-400	A	B
Payables	-1200	B	A

DATABASE AFTER INTERUNIT ELIMINATION

FS Item	Value	Cons unit	Partner Unit
Receivables	-1000	A	B
Payables	1200	B	A
Other Revenue	-200	B	A
Receivables	-500	B	A
Payables	400	A	B
Other Expenses	100	A	B

CONSOLIDATION OF INVESTMENTS

❑ Consolidation of Investments is a function used to eliminate share capital ownership as well as retained earnings between group companies, divestitures, transfers and amortization of goodwill. The transaction data is entered using T Code CX21. Consolidation of Investments function (TCode: CX57) is executed for the various activities as listed below:

❑ 01 First Consolidation

❑ 02 Subsequent Consolidation

❑ 03 Amortization of Goodwill

❑ 08 Partial Transfer

❑ 09 Total Transfer

❑ 10 Partial Divestiture

❑ 11 Total Divestiture

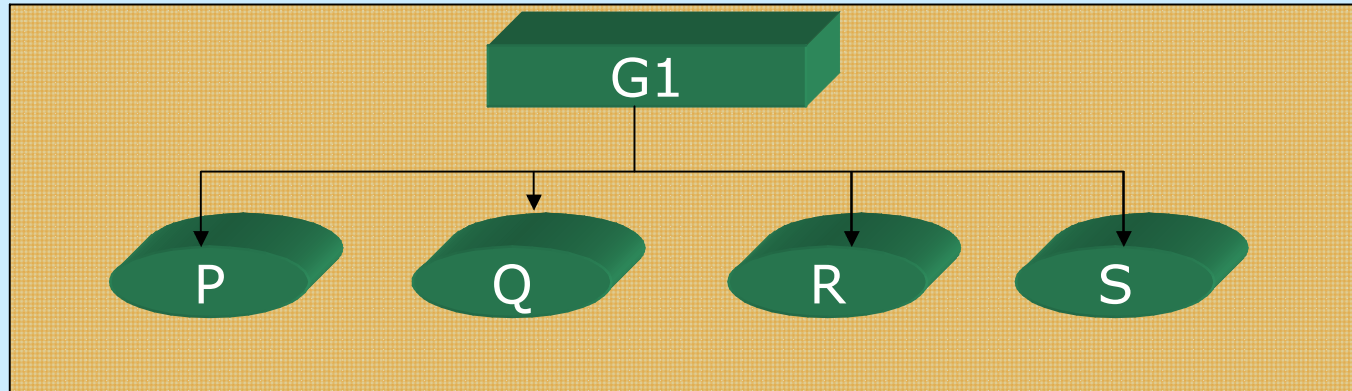# SIMULTANEOUS CONSOLIDATION OF INVESTMENTS

ADVANTAGES

- ❑ Details of all units are available for analysing the overall consolidation group.
- ❑ Simultaneous consolidation process is more straightforward than step consolidation.

DIS-ADVANTAGES

- ❑ Lack of clarity when groups are too large (too much detail).
- ❑ Parallel sub-consolidation groups are possible for reporting purposes, but generally pose the risk of being inconsistent with the overall group
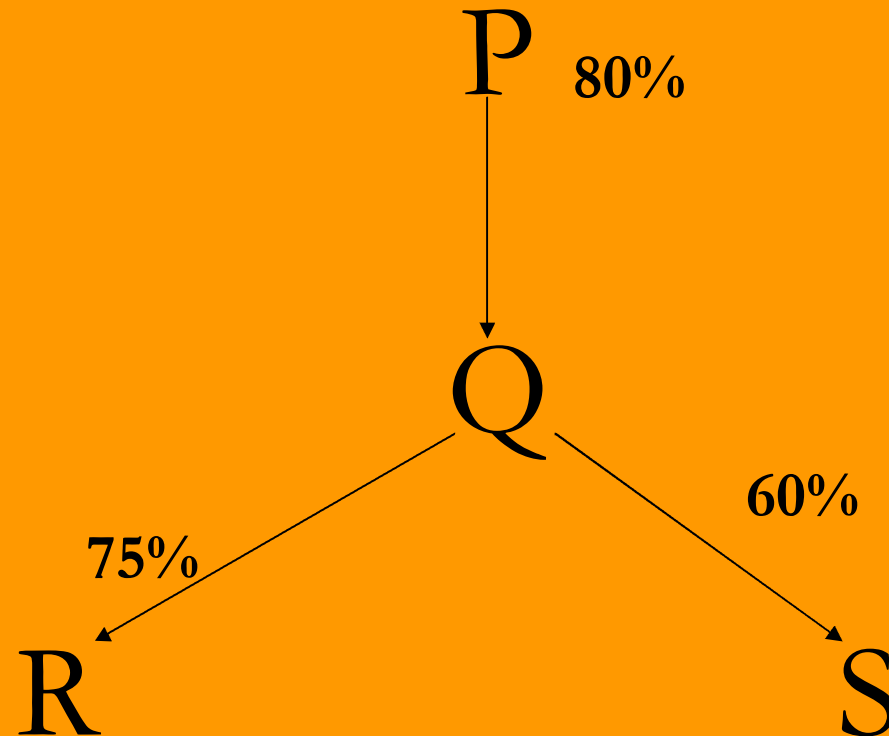
SIMULTANEOUS CONSOLIDATION

Consolidation group with all consolidation Units

	P	Q	R	S
Group Share	100%	80%	60%	48%
Overall ANI		100	100	100
-Min.interest ANI		-20	-40	-52
=Group ANI		80	60	48	Total =188

SIMULTANEOUS CONSOLIDATION OF INVESTMENT

STEP CONSOLIDATION OF INVESTMENTS

ADVANTAGES

❑   Improved clarity when groups are very large

DISADVANTAGES

❑   Consolidation units of different sub-groups do not share common details.

❑   When network-like investment structures are involved, disclosures and computations are much more complex than in simultaneous consolidations (for instance the *change of methods* in the hierarchy, or *re-interpretation of activities*).

STEP CONSOLIDATION
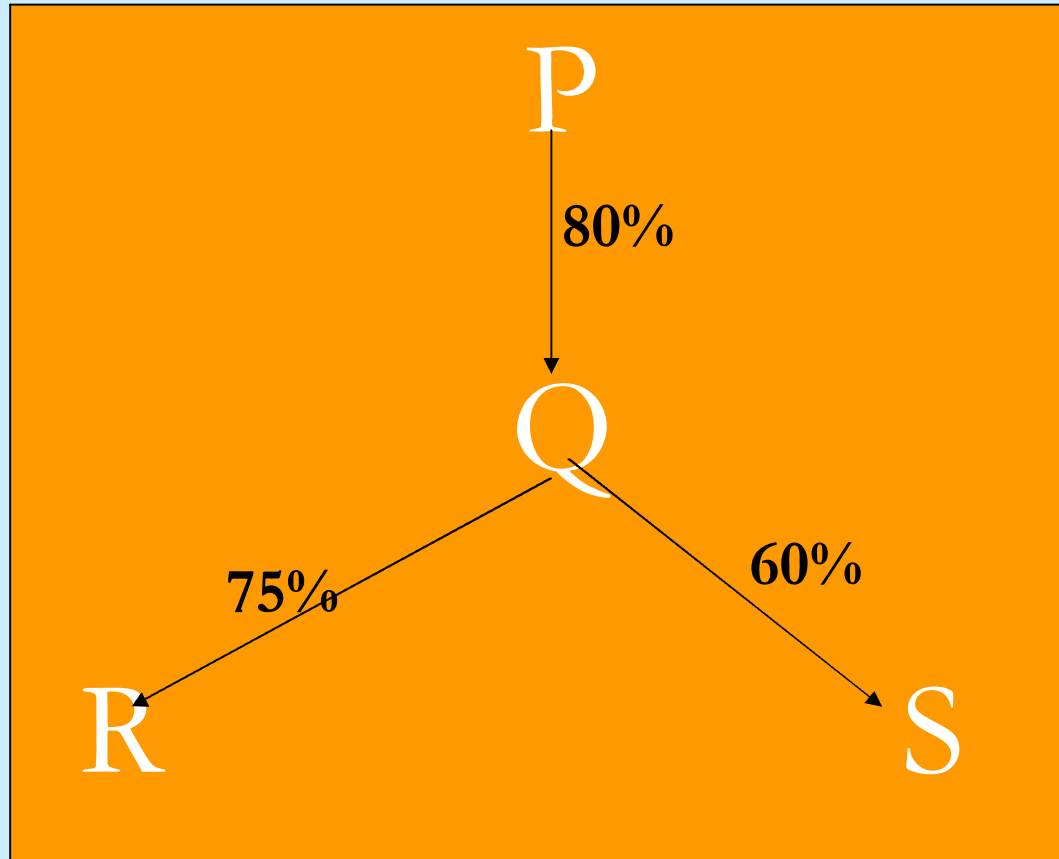## Hierarchical consolidation groups
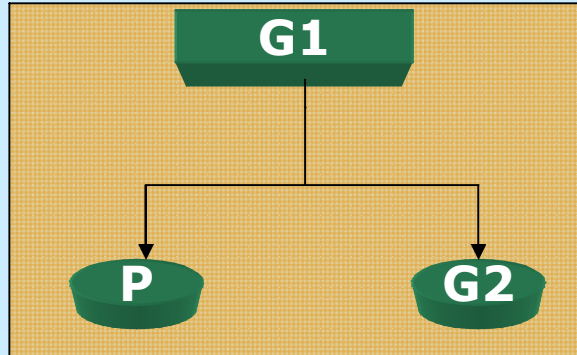
	P	G2
Group Share	100%	80%
Overall ANI		235
-Min.interest ANI		-47
=Group ANI		188	TOTAL=188
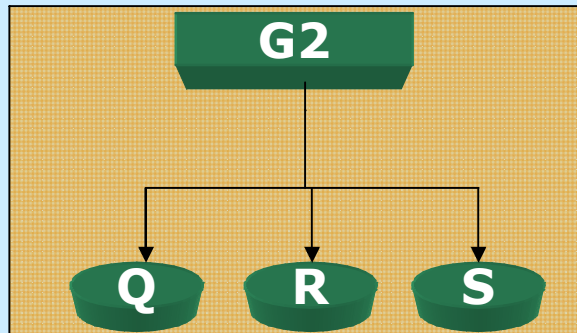
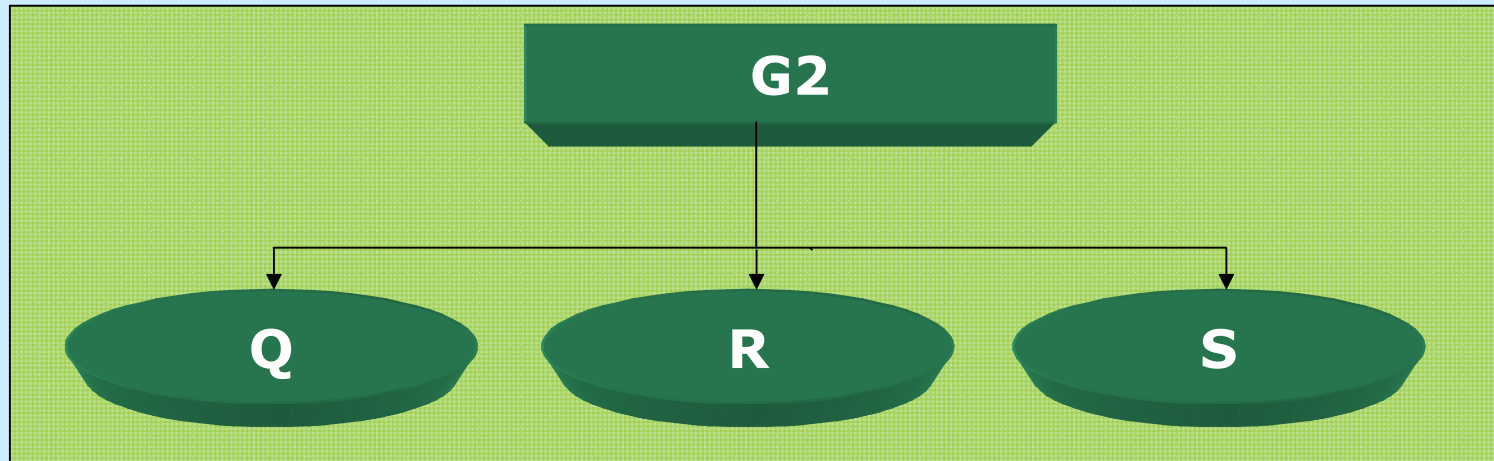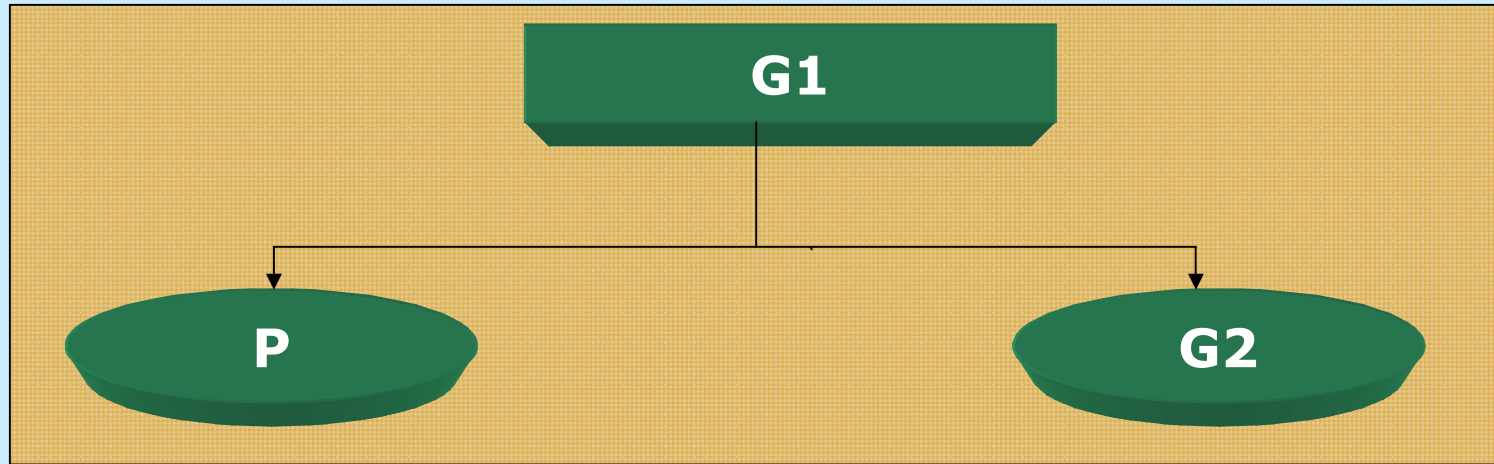|	Q	R	S
Group Share	100%	75%	60%
Overall ANI	100	100	100
-Min.interest ANI	0	-25	-40
=Group ANI	100	75	60	TOTAL=235

STEP CONSOLIDATION OF INVESTMENT

STEPWISE SIMULTANEOUS CONSOLIDATION OF INVESTMENTS

Stepwise simultaneous consolidation unites the advantages of simultaneous and step consolidation

❑　　Details of each consolidation unit
❑　　Details at each level of consolidation

EC-CS supports stepwise simultaneous consolidation:-

STEPWISE SIMULTENEOUS CONSOLIDATION

STEPWISE SIMULTENEOUS CONSOLIDATION

	P	Q	R	
Group ShareG2	**100%**	**75%**	**60%**	
Overall ANI	100	100	100	
-Min.interest in G2	0	-25	-40	
Group ShareG1	**80%**	**60%**	**48%**	
-Adj.min.int. In G1	-20	-15	100	**Total= -47**
=Group ANI	80	60	48	**TOTAL=188**

SIMULTANEOUS CONSOLIDATION OF INVESTMENT
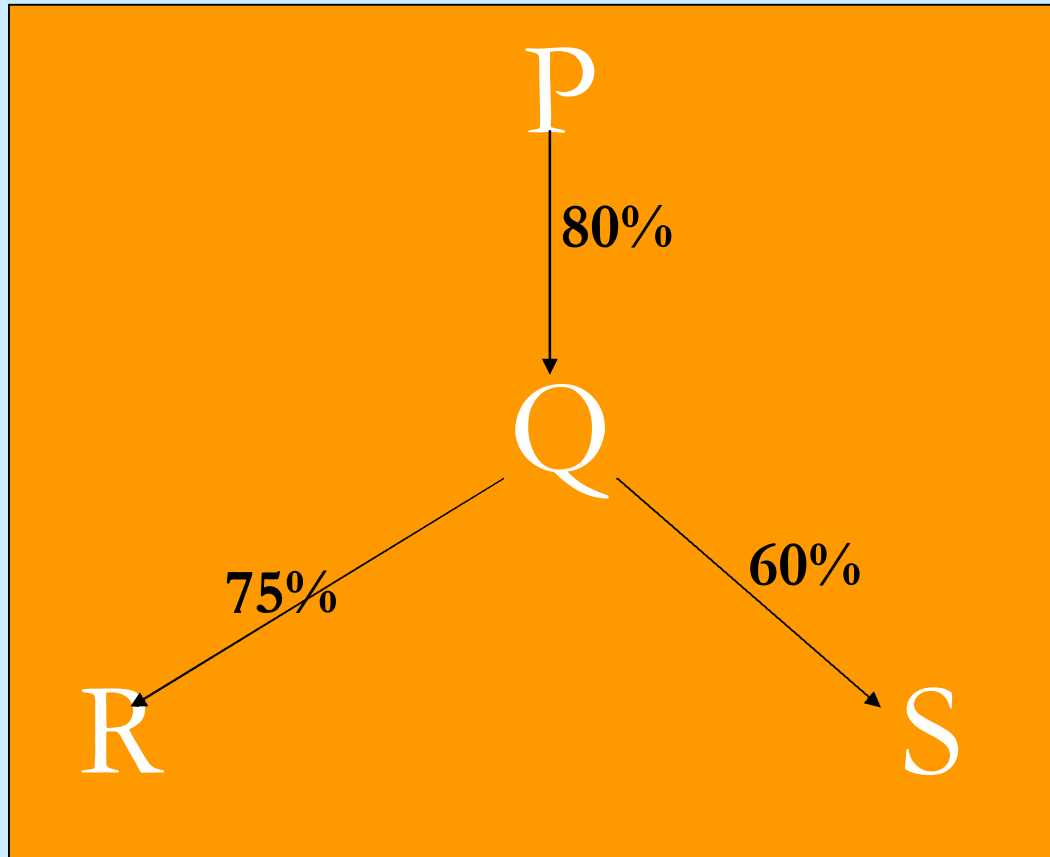
FINANCIAL STATEMENT ITEMS

❑ The FS item is the central account assignment object of the consolidation system. It identifies a value or quantity entry and can be differentiated with further sub assignments.

❑ The FS item type puts the characteristics of an item in concrete terms, with regard to data entry, posting and processing in evaluations. The following FS item types are distinguished: values, totals and text items.

❑ Where-applied indicator: Here you define whether the FS item belongs to the assets, liabilities/equity, income statement or statistical items.

❑ The FS item type can be defined by the user, for example, in order to select items specially as key figure items

FINANCIAL STATEMENT ITEMS

❑ Sub items enable you to break down FS items further. It may, for example, be necessary to additionally assign financial statement items in transferred assets with different transaction types so that all changes to the items are shown from the opening to the closing balance.

The sub items are grouped into sub item categories, in order to distinguish the transaction types in transferred assets from those in equity, for example.

Only one sub item category can be assigned to a particular financial statement item in EC-CS.
Default subitems are provided for each of the subitem categories in the consolidation charts of accounts supplied with the system.

❑ In SAP integration, you can define a sender field for each sub item category, for example transaction types, or customer's country. If the data is imported to EC-CS from FI or EC-PCA, the original account assignments are converted to sub items of the same name.
In the transaction applications, specify that the appropriate fields are ready for input

BREAK DOWN CATEGORY

Postings to FS items may be further broken down by Sub-items to facilitate reporting. This is achieved by assigning a Breakdown Category to the FS item. The following breakdown categories cab be n defined for Example.

- ❑ EQTY- For equity related items

- ❑ INCO – For inter-company items which will be used for Inter-unit Elimination

- ❑ ASST – For all fixed asset related items – acquisition and accumulated depreciation

- ❑ GEN – For all other items to be broken down by transaction currency

- ❑ STAT - For statistical items

VERSION

❑ Versions make it possible to consolidate financial data according to different criteria. Financial data to be prepared and consolidated according to different criteria or using different valuation approaches

❑ You can carry out consolidations in different consolidation versions. This enables you to carry out alternative consolidations, such as simulations, planning, restatements, and so on parallel to the consolidation of the actual data.

❑ You can, for example, use different versions to manage, consolidate and compare different reporting data for comparisons and simulations.

❑ You can open new versions at any time

VERSION

THE FIELD LENGTH AVAILABLE FOR NAMING OF VERSIONS IS THREE. EXAMPLES OF CONSOLIDATION VERSION :-	
CONSOLIDATION VERSION	**DESCRIPTION**
100	Actual Version This is a NORMAL version Balances will be carried forward into the new year for this version Copying of data from this consolidation version to another is allowed [useful second version created for simulations]All tasks will reference the special version 100 [Actual Version]
300	Local Version [used for local GAAP reporting] This is will either be an ADD-ON version and references version 100 as its base version, or, will be a normal version with the data being copied from version 100 Balances will be carried forward into the new year for this version Copying of data from this consolidation version to another is allowed [useful second version created for simulations] At this stage all tasks will reference the special version 100 [Actual Version]. This may change.
200	Budget Version This is a NORMAL version Balances will be carried forward into the new year for this version Copying of data from this consolidation version to another is allowed [useful second version created for simulations] All tasks will reference the special version 200 [Budget Version

USE OF DIFFERENT VERSIONS

Example of the use of add-on versions

- ❑ Version 1 consists of the consolidated statements according to US GAAP.
- ❑ Version 2 consists of additional financial data and/or manual or automatic postings.
- ❑ Version 2 reflects Japanese GAAP in conjunction with version

Drilldown Reporting and the Report Writer

- ❑ When the reporting functions use an add-on version, the data of all referenced versions are automatically used, as well.

Consolidation functions and the rest of the Information System:

- ❑ Always work with the data of "their" version
- ❑ Have no relationship to the referenced data of other versions

USE OF DIFFERENT VERSIONS

You can carry out simulations to analyse the different effects of:

Different valuation options

❑ Exchange rates
❑ Restatements
❑ Different reporting data (actual/plan)

Using the version concept you can, for example, combine your versions for actual and plan data with alternative currency translation methods

LEDGER

Contains transaction figures and documents showing the changes in the values and quantities resulting from accounting transactions. The values of transaction figures are saved in 16 periods as well as in one period for the balance carried forward.

You assign a ledger to each consolidation group in the master record of the consolidation group. The currency of the ledger determines the currency in which the consolidation groups carried in the ledger report their financial data

The data in the ECMCT totals table can be managed in three currencies:

- ❑ Transaction currency
- ❑ Currency of the consolidation unit
- ❑ Ledger currency. The ledger currency specifies the currency of the consolidation group.

You can also manage the ledger values as quantities (the unit of measure is defined in the breakdown category).

Example: -

- ❑ You want to consolidate two consolidation groups in USD and EURO. You need two ledgers for this. At group level you copy the values from the EURO ledger into the USD ledger.
- ❑ SAP delivers the standard ledger "1C" for consolidation. This ledger is not for use in a live customer system. Please create a new ledger (using ledger "1C" as a copy template).

LEDGER

Ledger	Ledger Name
PI	Consol ledger APAC-Australia. Currency (AUD)
P2	Consol ledger APAC-New Zealand. Currency (NZD)

FLEXIBLE UPLOAD FROM NON SAP SYSTEM

❑ You use this method if one or more units does not use any integration, but administer their reported financial data on PC. You can start the data collection both for a single unit and as well as for a group.

❑ Reported data
You can start the data collection directly in the data monitor, when you supply the master data of the cons units with the following information:

❑ logical file name, server selection, upload method

❑ The system only transfers the data streams, which correspond to the global parameters and refer to the unit to be edited. Other data streams of the file are not taken into account.

❑ You can also transfer the master data and the Customizing of product groups from a file.

❑ You can upload standardizing entries. A document is generated per combination of ledger, consolidation chart of accounts, dimension, version, period and consolidation unit.

STANDARDISED ENTRY

❑ Sometimes accounting practices followed by group companies in certain regions do not conform to corporate policies. In order to create a common ground for all companies in the group some adjustments need to be made in Consolidation. These adjustments are called Standardizing entries. The manner in which standardizing entries are passed is quite similar to journals in FI, except that the line items are posted to FS items (instead of GL accounts in FI).

❑ Standardizing entries are valid in all consolidation groups containing the consolidation unit that is posted against

CURRENCY TRANSLATION

❑ The currency translation task enables you to translate financial data reported by consolidation units in their local currency into the currency of the consolidation group.

❑ Currency translation is based on translation methods. You can define several methods for translating data reported by your consolidation units. You can assign every consolidation unit by time period and version.

❑ The type of currency translation you use depends on the relationships between your corporate group and its individual consolidation units (functional currency).

❑ You can define any of the commonly-used translation methods for your chart of accounts   (temporal method, current-rate method, and so on).

❑ Different financial statement item sets are usually translated using different exchange rates. You use various combinations of the currency translation key and the exchange rate indicator to determine these exchange rates.

❑ The currency translation key determines the base currency for translation, the table used to find the exchange rate, and the procedure for calculating group currency values.

❑ The currency translation keys are fixed and cannot be changed (exception: translation key

DATA MONITOR

❑ You use the Data Monitor to run the Activities for collecting and Preparing the financial data reported by your Consolidation units.In consolidation,these Activities are called Task.

❑ A Task group in a Collection of Task which is assigned to a dimension.A Task Group is assigned to one or many Consolidation Groups

❑ The Data Monitor displays the Hierarchy of organisation units all the way down to the level of the Consolidation Units.This means you can run the Task for the consolidation Groups as well as the Consolidation Unit
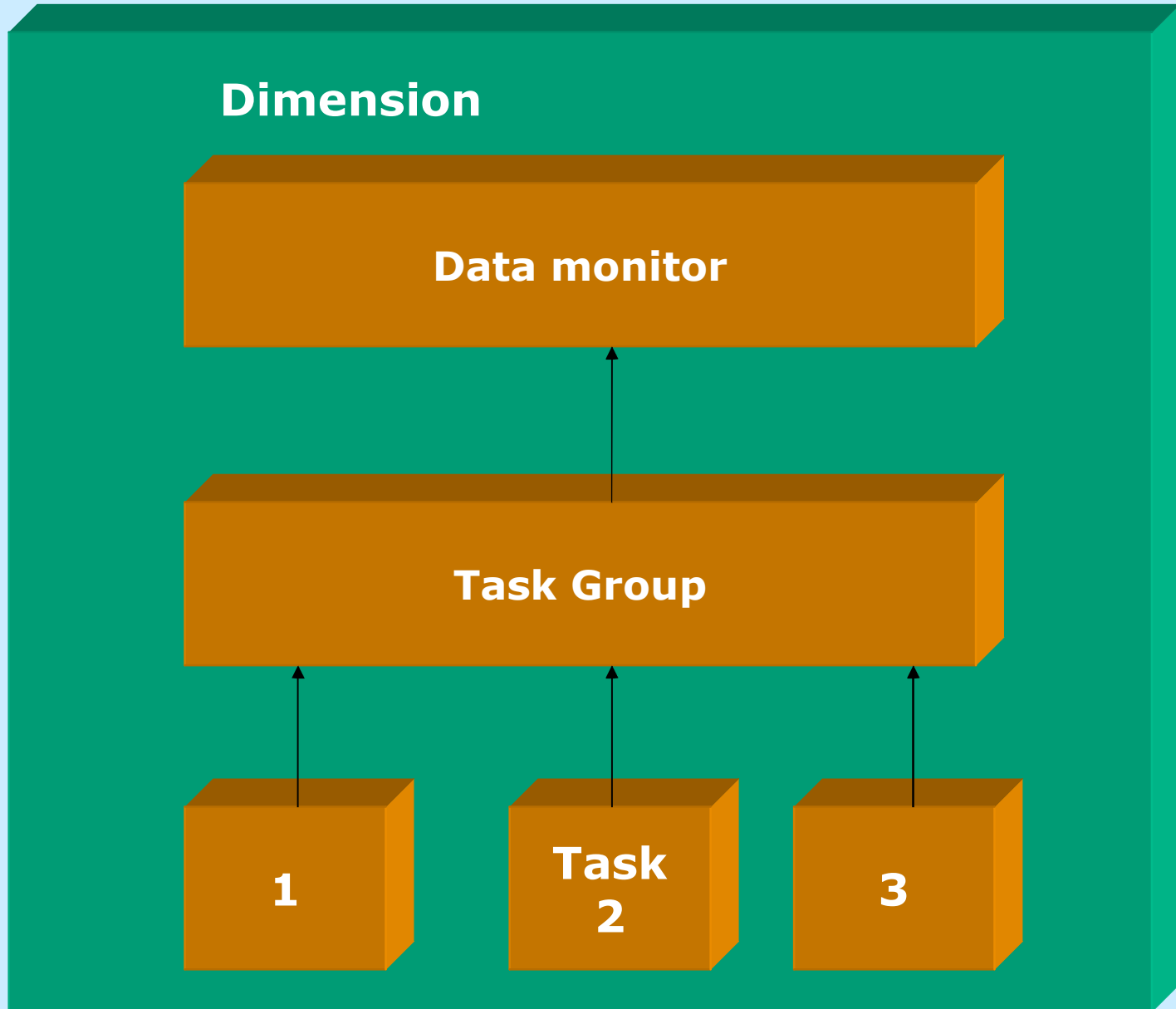
VALIDATION

The concept of user-defined validation is employed in many SAP applications.

Validations are available in addition to the standard checks in the EC-CS posting transaction. You can run validation when processing the following:

- ❑ Document header

- ❑ Individual document line

- ❑ Complete document

- ❑ Validation for a consolidation unit typically takes place after data collection (in local currency) and currency translation (into group currency).

- ❑ Validation across consolidation units or dimensions is essential for ensuring reconciled data in legal and management consolidation

DOCUMENT TYPE IN CONSOLIDATION

❑ EC-CS supports a wide range of automatic postings. You can also post standardizing and consolidation entries manually. Postings are classified by means of document types, enabling a simple analysis and the distinction between different business functions.

❑ Document types are used to assign specific attributes to consolidation entries. It is possible to use consolidation task-specific document types that can be employed in the reports and validations

❑ The system automatically generates journal entries (financial statement balancing adjustments and deferred income taxes).
In this way, you can control the special items for deferred taxes better, independently of the respective document type. Apart from that, with document types which are larger than or equal to 20, you can define a clearing item for cross-consolidation units postings (only for these posting levels can a cross-consolidation unit posting take place).

❑ When you want to specify selected items for the document type, then enter an item for the debit and credit postings.

❑ You need to use different document types to distinguish between manual and automatic postings. You can use identical or different number ranges for posting.

❑ The account assignment takes place by item number and as desired by sub assignment possibilities, which you can specify individually.

❑ A reversal function (and a mass reversal function) is available for single documents

BALANCE CARRY FORWARD

❑ At year-end consolidation balances are carried forward to the next year. B/S balances are carried forward to themselves while P&L balances are transferred to the Un-appropriated Retained Earnings item

❑ *Note:* There is a 'Carry Forward Balances' function in FI also (Tcode: F.16), which has no bearing on this transaction. In other words, executing the carry forward transaction in FI does not automatically carry forward balances in Consolidation.

❑ Every month, the Retained Earnings' function (T Code: CXCL) should be run for each consolidation unit, which posts the current month's Retained earnings to items 'RE – ANI B/S' and 'RE – ANI I/S'

❑ At the end of the year, when the 'Balance Carry Forward' function is executed, the figure from Retained Earnings gets carried forward to Un-appropriated Retained Earnings item to facilitate Consol Reporting.

RETAINED EARNINGS

❑ Every month-end, the retained earnings needs to be calculated and posted to the Current Year Retained Earnings items in the Balance Sheet and Income Statement such that both balance individually. These items are:

❑ Retained Earnings – Annual Net Income – Balance Sheet : 531200

❑ Retained Earnings – Annual Net Income – I/S: 990400

❑ There is no document number created, it hits the totals database directly. Any subsequent postings generated automatically by Consolidation functions would post to these items if there is an imbalance between B/S and I/S in the consol entry.

POSTING LEVEL

The Posting Level Standardizes postings in the Consolidation system.

Examples of different Type of Posting levels are as follows :-

❑ Space : Financial data from real-time update

❑ 08 : Item Substitution based on Posting Level "Space",00, and 01.

❑ 23 & 24 : Two sided Consolidation Entries

❑ 02,12,22,24 : Entries are valid for specific Consolidation Group

POSTING LEVEL

	Non group-dependent	Group-dependent
	Adjusting entry	**Divestiture entry**
Reported data	00 01	02
Standardizing entries	10	12
Two-sided elimination entries	20	22
Group-dependent elimination entries		30

POSTING AND DOCUMENT TYPES

- ❑ Posting in Consolidation Ledger are differentiated by document Type

- ❑ Each document type is assignment to a single number range for a particular version

- ❑ Posting levels are assigned to document type

- ❑ Each Document Type should be used for One Task Only

POSTING AND DOCUMENT TYPES
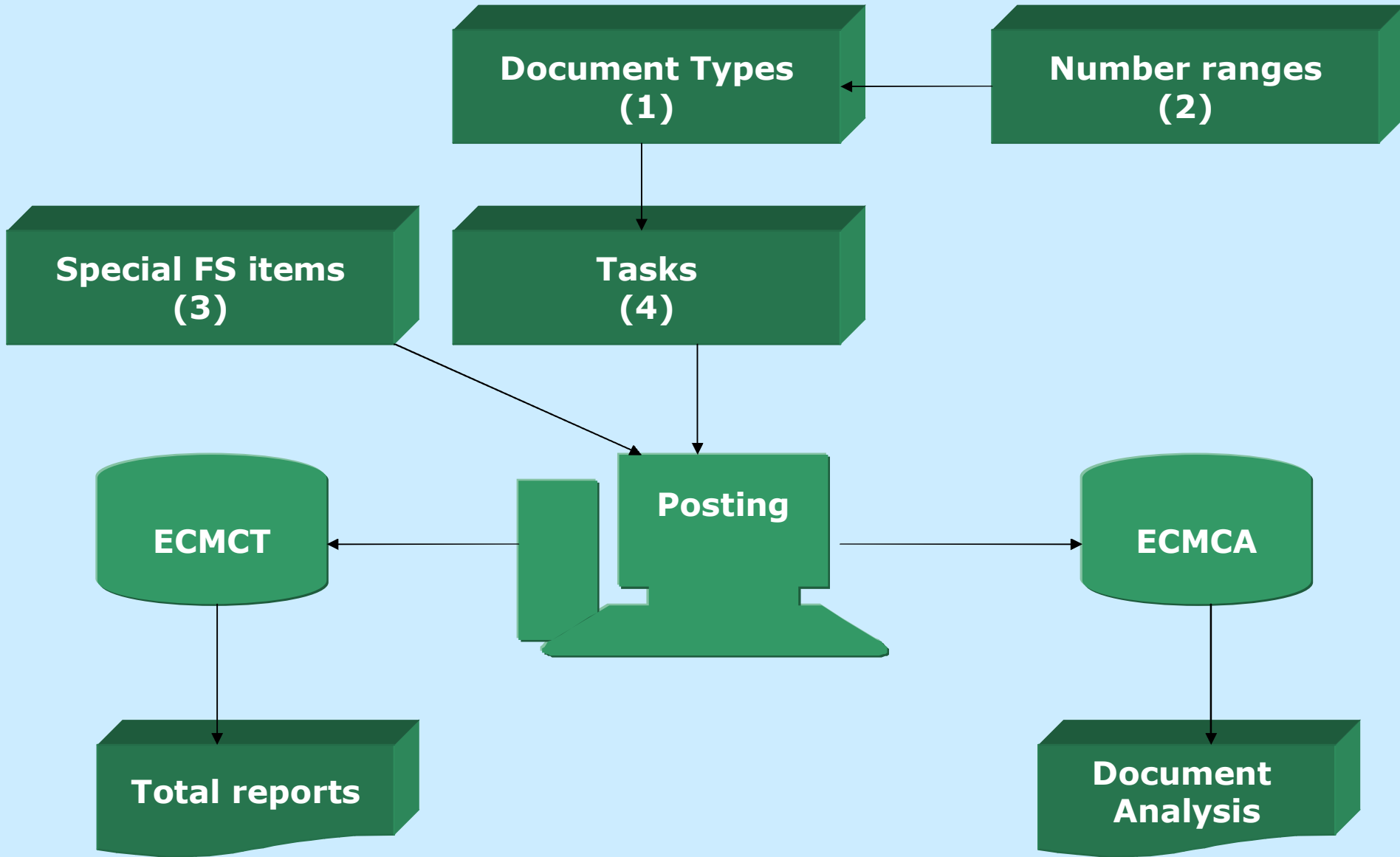
RECLASSIFICATIONS

❏ Reclassifications are adjustment entries between balance sheet and/or income statement items. That is, the values of the financial statement (FS) items are reclassified

❏ For further documents visit www.sap-topjobs.com