

# Interest Calculation



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## Icons

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## Interest Calculation

Interest can be calculated on customer and vendor accounts in two ways:

- Account balance interest calculation
- Calculation of interest on arrears

The following topics describe the calculation of interest on arrears. First, you will be introduced to the process of interest calculation and the settings you can make for the interest calculation indicator and method. This is followed by an explanation of the relevant fields in the master record and the line items. Finally, you will learn how to carry out interest calculation itself.

Balance interest calculation is described in the *FI G/L Accounting* manual.

**See also:**

[Introduction to Interest Calculation \[Page 6\]](#)

[Executing the Interest Calculation Program \[Page 11\]](#)

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**Introduction to Interest Calculation**

## Introduction to Interest Calculation

Interest calculation is controlled by settings made in the interest indicator. You assign an interest indicator to the master records of the customer and vendor accounts you want to calculate interest for. When executing an interest calculation run, you will make further specifications that also affect the run and sometimes have priority over the settings in the interest indicator.

Interest is calculated using the debit interest rate defined for the interest indicator. Credit interest rates are used when interest is being calculated on items paid prior to their due date.

There are different ways to calculate interest:

- To calculate interest on cleared items only and post this interest, choose *Periodic processing* → *Interest calculation* → *Arrears* → *Without open items* from the *Accounts Receivable* or *Accounts Payable* menu. The system will calculate interest as of the net payment due date.
- To calculate interest on open and cleared items and post the interest, choose *Periodic processing* → *Interest calculation* → *Arrears* → *With open items* from the *Accounts Receivable* or *Accounts Payable* menu. The system will calculate interest as of the upper limit date of the last interest run.
- To calculate interest on open and/or cleared items without posting the interest, choose *Periodic processing* → *Interest calculation* → *Arrears* → *Without postings* from the *Accounts Receivable* or *Accounts Payable* menu. The system will calculate interest as of the net payment due date.

In each of the above options, the system presets the appropriate fields and offers only the necessary selection criteria.

- To calculate interest any other way, choose *Periodic processing* → *Interest calculation* → *Arrears* → *Free selections* from the *Accounts Receivable* or *Accounts Payable* menu.

For more information about calculation of interest on arrears, see the documentation for programs:

RFDUZI00      Calculation of Interest on Arrears (Customers)  
RFKUZI00      Calculation of Interest on Arrears (Vendors)

[The Interest Calculation Process \[Page 7\]](#)

[Master Record Fields for Interest Calculation \[Page 9\]](#)

[Blocking Items \[Page 10\]](#)

## The Interest Calculation Process

The interest calculation process is as follows:

- First the program identifies the items on which interest is to be calculated according to the rules defined in the interest indicator, and any additional specifications you make when executing the program. The rules you enter determine the items and transaction for which interest can be calculated, such as:
  - Cleared or open items only
  - All clearing transactions or only those with a payment (thereby excluding uncleared credit memos and payments on account).
  - Credit and debit items or only debit items. If interest is to be calculated on credit items (for example, credit memos and payments on account), it is calculated in the same way as for debit items.
- The program then determines the days for which interest is to be calculated, taking into account the calendar type.
  - There are basically two factors involved in interest calculation: the lower and upper limit of the calculation period you specify for the interest calculation run, and the time period between the net due date and the date of the payment document (or the clearing date for credit memos determined per item). The program selects those items in which the period between the net due date and clearing date falls within the lower and upper limit of the calculation period. If the lower limit of the calculation period is suppressed, the system uses the value from the *Last key date* field in the master record as the lower limit. *Stichtag* verwendet.
  - You can specify whether interest should be calculated as of the date of the last interest calculation. That is, only those items still open as of the date of the last run will be included in the new run. Cleared items are only included if the clearing date is later than the date of the last interest calculation.
  - Tolerance days may be specified in the interest indicator. These are added to the due date for net payment, but are only relevant for selecting the items to be included in the interest calculation run. Interest is always calculated as of the due date for net payment without taking into account any tolerance days. You can also define transfer days for cleared items. This is a way of making allowance for when payments take longer than usual to transfer or when the relevant accounts are not cleared promptly. Transfer days are subtracted from the date of the payment document or from the clearing date.
- After determining the items on which interest is to be calculated, the program works out the amount in local currency. In doing so, it takes into account any interest rate changes within the calculation period, and if a minimum amount is specified for the interest indicator, it compares the calculated interest amount with the minimum amount. By specifying a minimum amount, you can prevent letters from being created and sent to vendors for insignificant interest amounts.
- Lastly, correspondence is created if the calculated interest exceeds the minimum amount. The form containing information for the correspondence is defined in the interest indicator. However, you can specify a different form in each interest calculation run.

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## The Interest Calculation Process

### Information in the Letter

The letters you send to your business partners about interest calculation contain the following information:

- Text
- Overview of line items
- Interest rate overview
- Interest overview

The system also creates an error list if the calculation report did not run correctly.

You can also request the following lists:

- Log
- Account overview

## Master Record Fields for Interest Calculation

There are two fields in the company code data area of customer and vendor master records that are relevant for the calculation of interest on arrears:

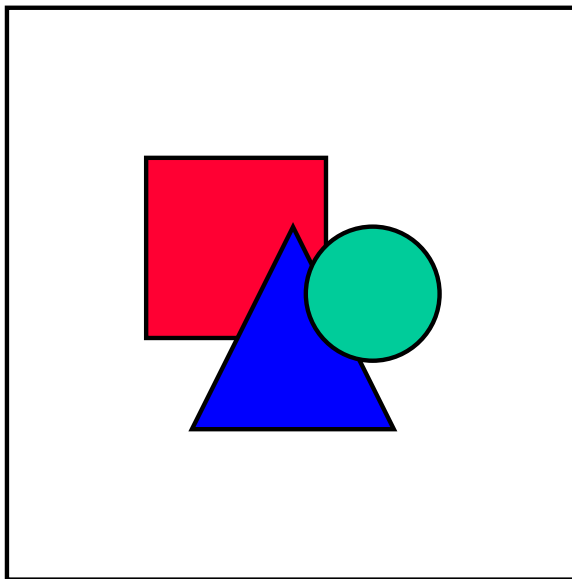
- **Interest indic.**

The interest indicator specified in the customer master record is used by the program which calculates interest on arrears. The most important specifications for the interest calculation run are stored under the interest indicator. They include, for example, rules determining which items are selected for interest calculation and how the interest is calculated.

The interest indicator must be assigned the interest calculation type *Item interest calculation*.

- **Last key date**

After each interest calculation run, the program enters the upper limit of the calculation period into this field by batch input. This is the date you have specified for the calculation run.



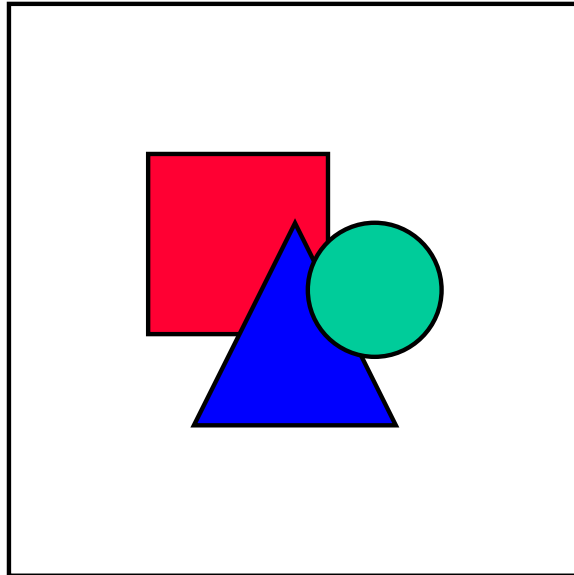
If an account is to be included in the interest calculation run, an interest indicator for interest on arrears must be specified in the master record!

See [Customer Master Records \[Ext.\]](#) or [Vendor Master Records \[Ext.\]](#) to find out how to change or display a master record.

## Blocking Items

## Blocking Items

To exclude particular items from interest calculation, you can block them by placing an **X** in the *Interest block* field in the line item. To do this, choose *Extras* → *More data* when entering or changing a document.



The field is ready for input if the master record contains an interest indicator.

## Executing the Interest Calculation Program

To calculate interest on arrears, proceed as follows from the *Accounts Receivable* or *Accounts Payable* menu:

1. Choose *Periodic processing* → *Interest calculation* → *Arrears* and then the desired option:

- *Without open items*
- *With open items*
- *Without postings*
- *Free selections*

The system displays the screen for entering your selection criteria.

You specify the following:

- **Selection criteria**

You can specify an interval for accounts and company codes. In addition, you can restrict the interest calculation to only those accounts with certain interest indicators, or to reconciliation accounts or to special G/L transactions.

- **Calculation period**

If you choose the *Free selections* option, you can enter a lower and upper limit for the calculation period directly. If you choose one of the other three options, you can specify only the upper limit, and the system uses the value of the *Last key date* field in the master record as the lower limit. The program checks the items for this period. Alternatively, select the *Include date of last int calc.* parameter in which case the program uses the upper limit entered in the last interest calculation run as the lower limit of the calculation period. This ensures that calculation periods do not overlap. If you select the *Calc. int. from net due date* parameter, the program calculates interest as of the due date for net payment, ignoring any lower limit.

- **Calculation of interest**

The rules for calculating interest are stored under the interest indicator. If you are using the Gregorian calendar, you can specify that, when one occurs, a leap year is taken into account when calculating interest. You determine which calendar type is used by specifying this under the interest indicator.

- **Form and printing the letters**

You can specify your own form to define which information is contained in the form or the letter. If you do not do this, the form stored in the system is used. You must also specify the date of issue for the letter.

2. Specify the appropriate data. You reach the second screen page with the scrolling (page down) key.

It is possible to have the system automatically post debit or credit interest by batch input. To do this, select the *Post interest settlements* parameter. The date of the last interest calculation run is updated by batch input in the master record. If you require this, you must select the *Maintain master records* parameter.

3. Choose *Program* → *Execute* to calculate the interest.

Executing the Interest Calculation Program