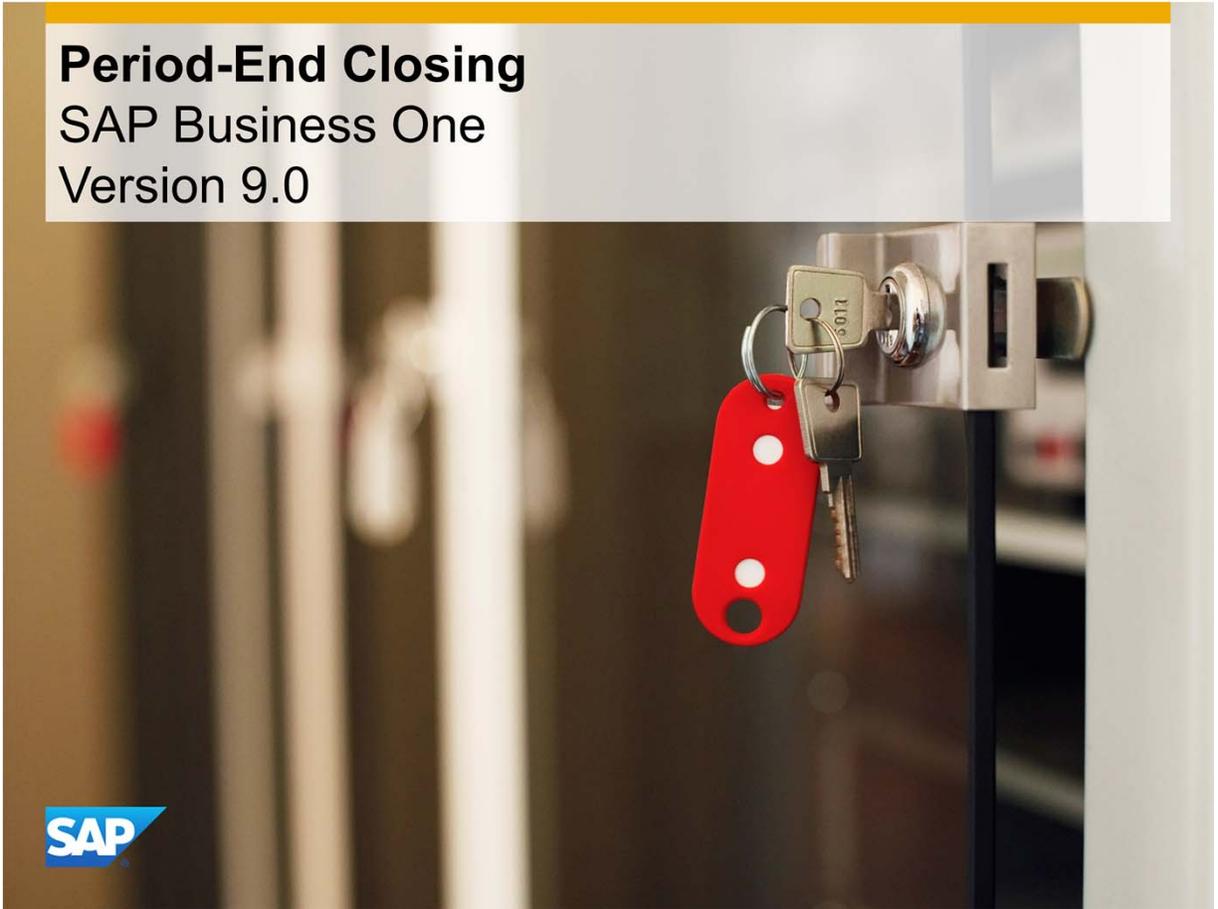


# Period-End Closing

## SAP Business One

### Version 9.0



Welcome to the period end closing topic.

## Objectives

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After completing this topic, you will be able to:

- Prepare for Period-End Closing
- Perform Period-End Closing

In this course we will discuss how to prepare for and perform period-end closing.

## Business Example

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Your company creates a financial statement once a year:

- They need twelve posting periods for internal controlling.
- You have defined the Fiscal Year as the calendar year and sub-periods as Months.
- The company will not run the Period-End Closing process at the end of each month.
- Instead they will run it at the end of the Fiscal Year.
- There are many period-end tasks they do at month end.
- The accountant follows a list of steps for year-end closing.

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- Imagine that your company creates an annual financial statement once a year.
- They need twelve posting periods for their internal controlling.
- Therefore, you have already created a new company database and defined the Fiscal Year as the calendar year and the sub-periods as Months.
- They will not run the Period-End Closing process at the end of each month, they will do it at the end of the main Posting Period - the Fiscal Year.
- Even so, there are many period-end tasks they do at month end. For example, each month they do internal reconciliation and send debtor statements for outstanding debts.
- There is a lot of preparation needed for the period-end. The accountant follows a list of steps for year-end closing.

## Agenda

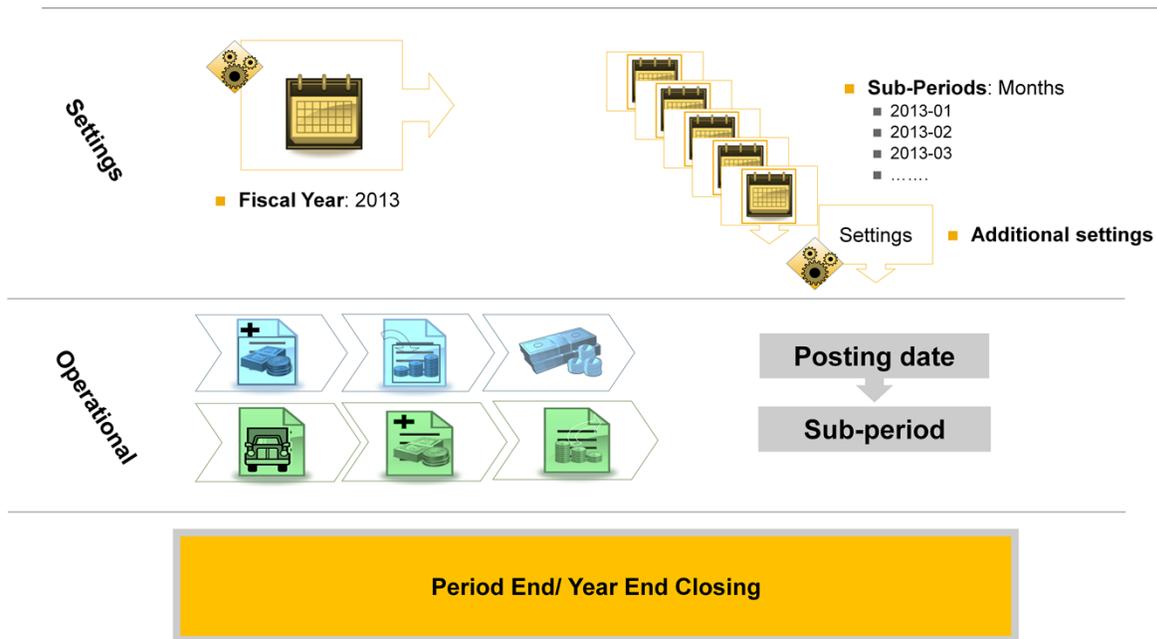
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- Period End Process
  - Period-End Closing - Overview
  - Month End vs. Year End
  - Period End Tasks
- Period-End Closing
  - Period-End Closing Utility
  - Posting Period Status

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Let us review the period end closing process. We will emphasize the different actions a user should take in month end closing versus year end.

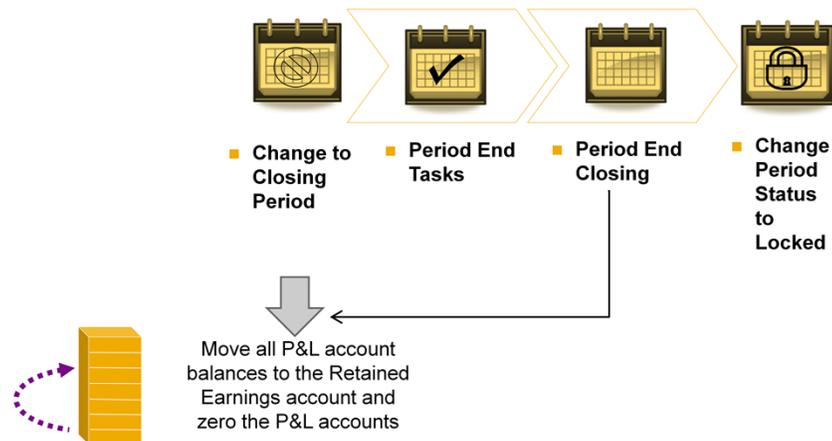
## Posting Periods – Process Overview



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- Here, you can see an overview of the Posting Periods Process. There are three stages in the posting periods process. In this topic we will focus on Period End Closing, the last stage of the process.
- First let us review each step.
- In the first stage, we define settings for posting periods. First we define the main posting period for the Fiscal Year. Then we define the sub-periods in the fiscal year: Year, Quarters, Months, or Days.
- The second stage is the Operational stage. In everyday work, we enter documents and manual journal entries with a posting date that will be registered automatically to the appropriate sub-period. Sub-periods allows the user to control posting into them, that way, postings to each month can be controlled.
- The third stage is what we will focus on: the Period End Closing process.

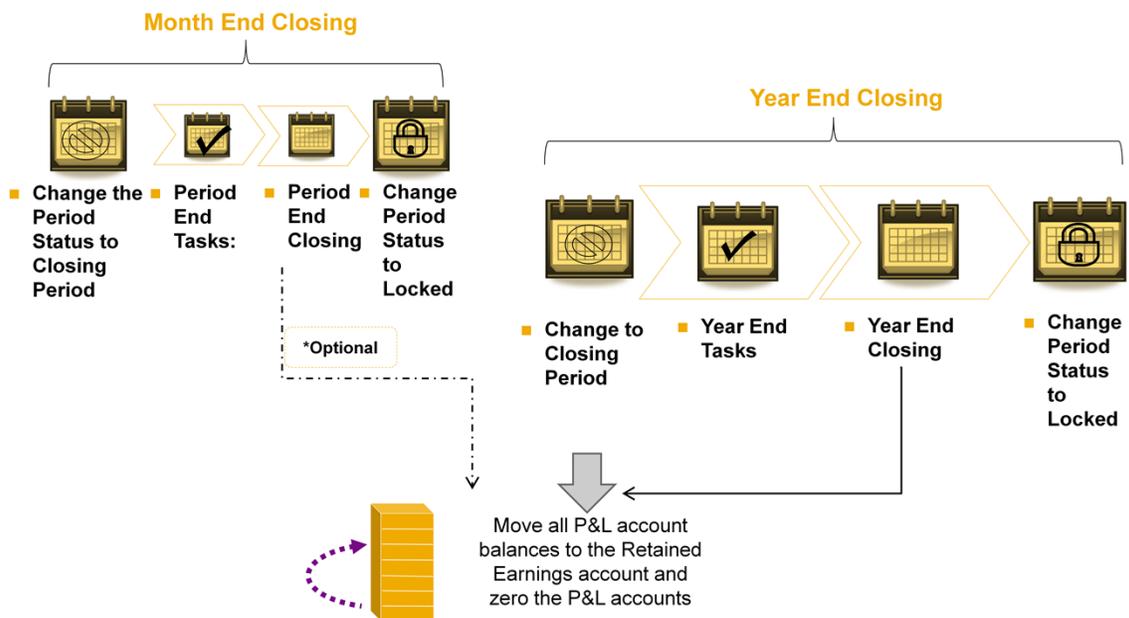
## Period-End Closing



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- There are four tasks in period end closing.
- First you change the posting period status to *Closing* Period. This status will limit who can post to the period.
- Then you perform the year end tasks, such as reconciliation.
- Then you use the period end closing utility to close the period.
- This step will move all P&L account balances to the retained earnings account and zero the P&L accounts.
- Finally you change the period status to *Locked*.
- The Period End Closing process is typically done at the end of a financial period that is a year in length. You do that using the **Period-End Closing** window.
- You can, however, close a Sub-Period too.
- We will discuss Posting Period Statuses later on in this course.

## Period-End Closing: at the Month End vs. at Year End



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- Remember our business example. Your company's main period is a year, but you also have monthly sub-periods.
- You have decided not to close each sub-period, although you perform monthly period-end tasks.
- This is because you use the sub-periods mainly for internal controlling.
- When your company does the year-end closing, at that point, your company closes all the sub-periods.
- Other companies may choose to close each sub-period at the **end** of each sub-period.
- Since they have already closed Sub-Periods during the year, they close the **last sub-period of the fiscal year**.
- In either case, to prevent users from creating documents for the previous fiscal year, you can change the status of the period you are about to close to **Closing Period**. This means that only authorized users can post data, documents, and transactions.
- The key purpose of the Period-End Closing is to prepare the accounts for submission to the authorities and therefore involves the re-setting of the P&L account to zero so that the next period can begin again collecting P&L data that is relevant to it.

- You then **close or inactivate the Sub-Posting Periods in the fiscal year by locking them** using the *Period Status* field in the *Posting Period* window.

## Reflection Question



In a company that closes a period on a quarterly basis:

- A delivery note with a large amount of items was posted on March 31<sup>st</sup>.
- The A/R Invoice for this delivery was issued on April 2<sup>nd</sup>.

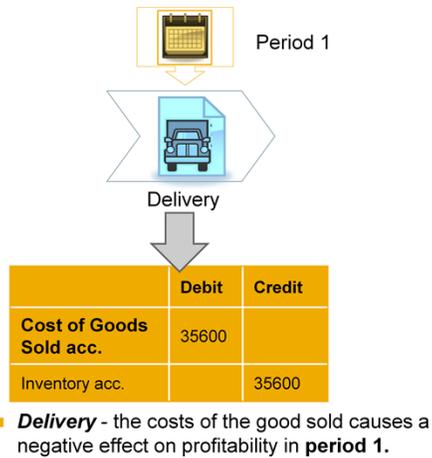
Would that be a problem in the ***Profit and Loss*** report for the first quarter?

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In a company that closes periods on a quarterly basis and runs perpetual inventory:

- A delivery note with a large amount of items was posted on March 31<sup>st</sup>.
- The A/R invoice for this delivery was issued on April 2<sup>nd</sup>.
- Would that be a problem in the ***Profit and Loss*** report for the first quarter?
- We need to consider the effects of this scenario on the periodic financial reports.
- Let us see the journal entries of the documents, including the involved accounts, that were issued in different periods: the *Delivery* and the *A/R Invoice* based on that delivery.

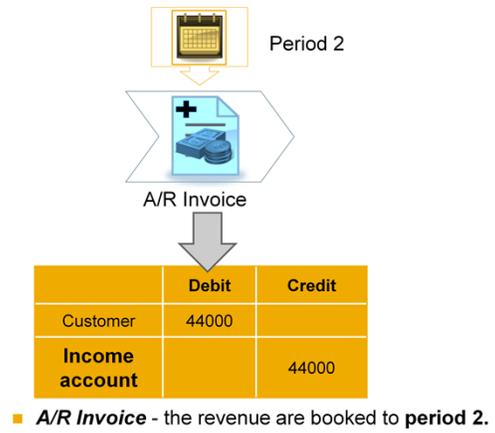
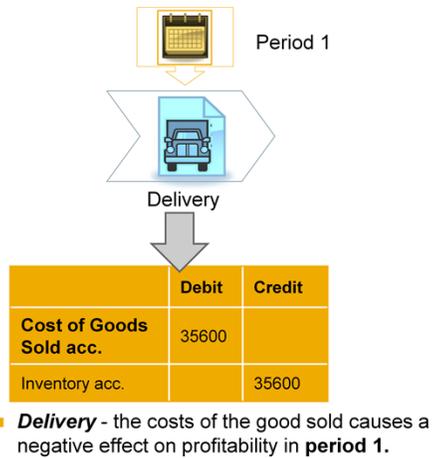
## Reflection Question



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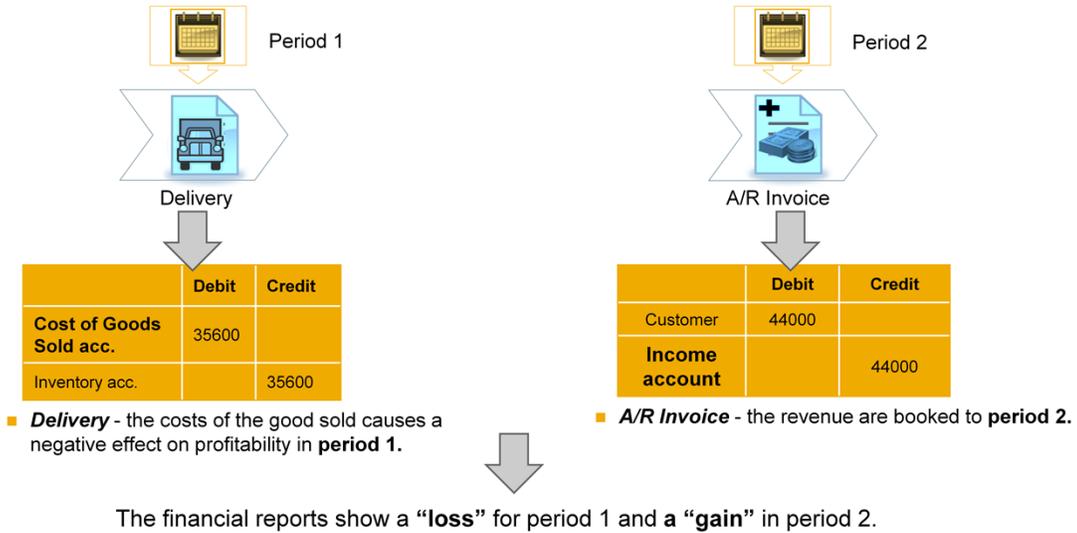
First, in the delivery - the costs of the good sold causes a negative effect on profitability in period 1.

# Reflection Question



In the A/R Invoice - the revenue is booked to period 2.

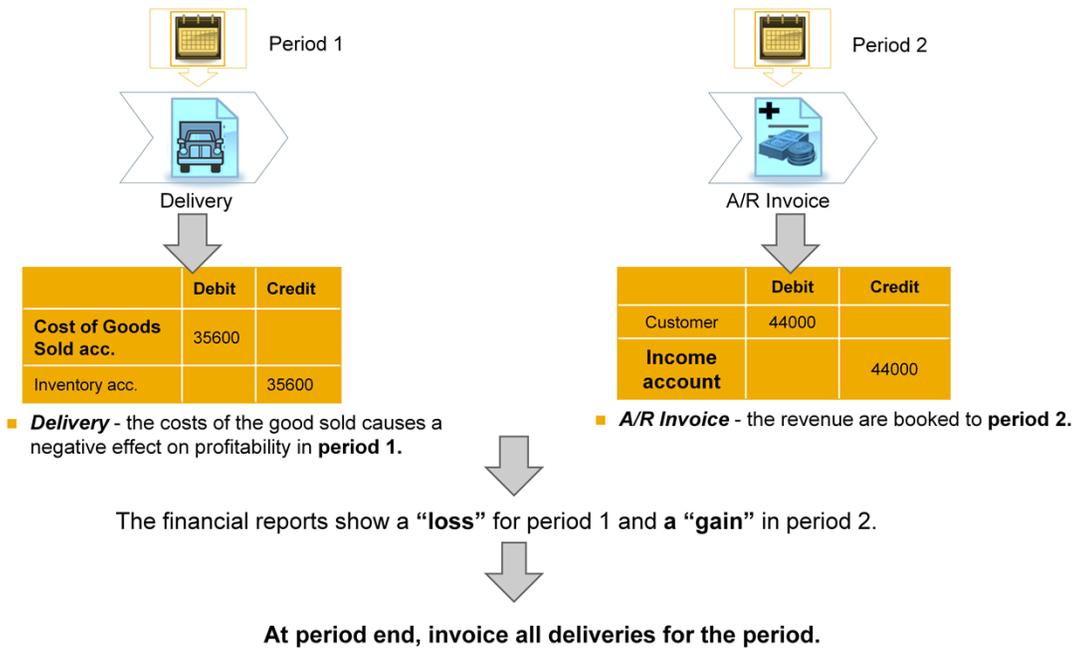
# Reflection Question



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This reflects in the periodic Financial Reports. If the business is closing periods and reports on a quarterly basis, it shows a “loss” for period 1 and a “gain” in period 2.

## Reflection Question



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- Therefore, one of the Period-End Tasks will be: to ensure you invoice all deliveries in the same period.
- In the next slides we will discuss the tasks you need to take in order to prepare for period-end and year-end closing.

## Period End Tasks



Here are some examples for **Period-End Tasks**:

- Ensure period-end transactions were posted properly
- Post all Journal Vouchers
- Internally reconcile Expense Clearing Accounts
- Print:
  - *Trial Balance*
  - *Vendor Liabilities Aging and Customer Receivables Aging* reports
  - *Inventory Audit* report
  - *Financial Statements*
- Review the open items list and close documents when possible
- Make a backup of your database and put it in an off-site storage location

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### ■ Here are some examples for **Period-End Tasks**:

- Ensure that all period-end transactions were posted properly, including adjustments and accruals.
  - Post all open Journal Vouchers.
  - Internally reconcile Expense Clearing Accounts. As a best practice, you should reconcile them regularly at the end of each month; otherwise, you have a high number of transactions to reconcile at the end of the year. To simplify the process, you can run automatic reconciliations.
- ### ■ Print the reports:
- *Trial Balance* (a balance of each account and a current status).
  - *Vendor Liabilities Aging and Customer Receivables Aging* reports to reconcile receivable accounts with the G/L.
  - *Inventory Audit* report to reconcile inventory with the G/L.
  - *And all Financial Statements*.
- ### ■ Review the open items list and close documents when possible.
- ### ■ Lastly, make a backup of your database and put it in an off-site storage location.

## Year End Tasks

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Here are some examples for **Year-End Tasks**:

- Post Doubtful Debts
- Post exchange rate differences
- Post final transactions for the period in all modules
- Close the last period of the fiscal year
- Print any year-end reports, such as financial statements
- Set up a new fiscal year
- Backup to save the status of the previous fiscal year

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Here are some examples for **year-end** tasks:

- Post any Doubtful Debts that you feel may not be recoverable.
- Post exchange rate differences and conversion differences.
- Post final transactions for the period in all modules and any final adjusting entries in the general ledger.
- Close the last period of the fiscal year.
- Print any reports such as a final detailed Trial Balance and Financial Statements.
- Set up a new fiscal year (if you have not already done so).
- Once again, you should do a backup. This time to save the status of the previous fiscal year.

## Agenda

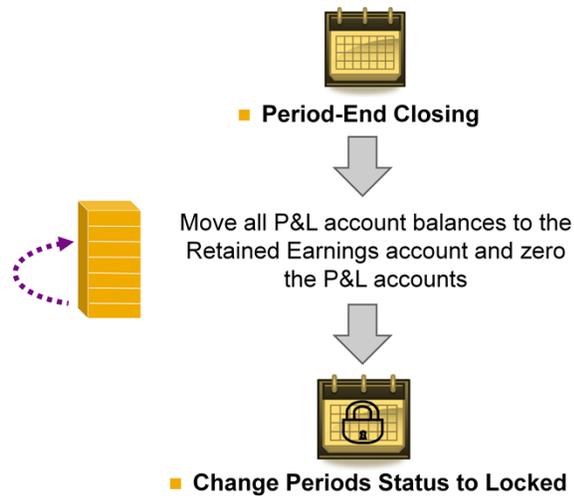
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- Period End Process
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The next step in the period end closing process is to run the period end closing utility and then change the posting period status.

## Perform Period-End Closing



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- After the period-end tasks are complete, we now are ready to run the period-end closing utility to close the fiscal year.
- This action will zero all Profit and Loss account balances to the Retained Earnings account. The retained earnings account is a Balance Sheet account in the Capital and Reserves drawer. Capital and Reserves is called Equity in some localizations, such as the United States.
- After closing the period, the retained earnings account contains the total brought-forward cumulated profit. The next period can then begin again collecting P&L data that is relevant to it.
- You then close or inactivate the sub-posting Periods in the fiscal year by locking them.

## Period-End Closing Utility

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### Water Expense Account Balance



Proposal

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- With the Period-End Closing utility, you can choose P&L accounts and periods, and specify a retained earnings and period-end closing account. When you execute the period-end closing, the system generates a list of proposals for closing entries. You can accept each proposal individually.
- Here is an example for one account.
- When we run the period end-closing utility for the water expense account, we get a proposal for a closing entry.
- The **Period-End Closing** utility is found in the **Utilities** area of the **Administration** module.

## Period-End Closing Utility

### Water Expense Account Balance



Proposal



Accept and Post Proposal



### Automatic Journal Entries:



Posting Date: December 31<sup>st</sup>

Period-End Closing period

	Debit	Credit
Water Expense Account		11500
Period-End Closing Account	11500	

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- When you accept the proposal for the account, two transactions are created for each account and two journal entries are automatically created to reflect those transactions. This way the financial reports are correct in both periods.
- In the first journal entry, the system transfers the account balance from the Expense and the Revenue accounts to the *Period-End Closing* account on the same day (the last day of the period). This sets the accounts balances to zero.
- The Period-End Closing account is a temporary or clearing account which holds the balance until the beginning of the new period.

## Period-End Closing Utility

### Water Expense Account Balance



Proposal



Accept and Post  
Proposal



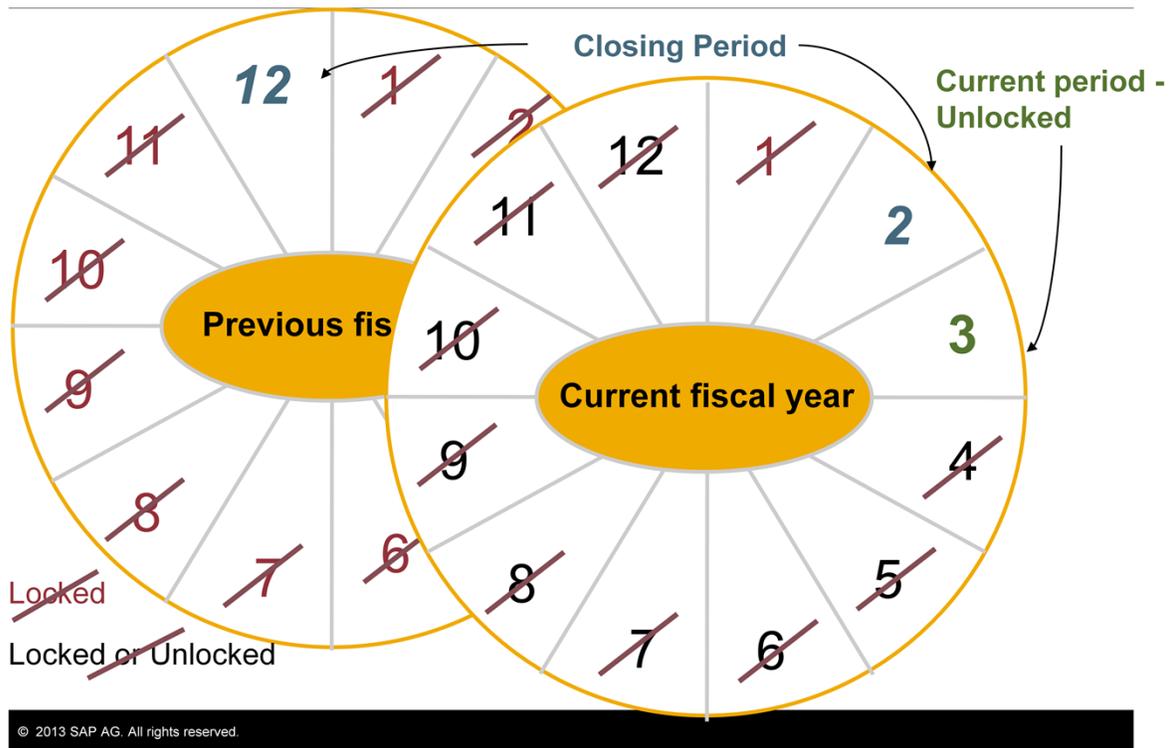
### Automatic Journal Entries:

 <b>Posting Date: December 31<sup>st</sup></b> Period-End Closing period		<b>Debit</b>	<b>Credit</b>
	Water Expense Account		11500
	Period-End Closing Account	11500	
 <b>Posting Date: January 1<sup>st</sup></b> Following posting period		<b>Debit</b>	<b>Credit</b>
	Period-End Closing Account		11500
	Retained Earnings Account	11500	

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- The second journal entry is created at the same time as the first, however the second journal entry is dated on the first day of the following posting period.
- On the first day of the following posting period, the system transfers the balance from the *Period-End Closing* account to the *Retained Earnings* account.
- Now, the *Retained Earnings* account, which is a *Balance Sheet* account, contains the total brought-forward cumulated profit.
- You can recognize Journal Entries posted by the Period-End Closing Utility, because they have the origin “BC”. In the balance sheet report, you can later choose whether to include or exclude these types of transactions by selecting the *Add Closing Balances* box.
- If you make postings after entering the balances carried forward, you need to repeat the period-end closing routine to include these subsequent postings.

## Posting Period Status



- Let us review the statuses available for posting periods.
- The *Posting Periods* window is found under *System Initialization* in the *Administration* module.
- For example if we look at the graphic we see the current fiscal year. We are currently in sub period 3. The current sub period is unlocked.
- In everyday work, when a posting period is **Unlocked**, anyone can post transactions with a posting date that falls within the period start and end.
- At end of a posting period, after all business transactions belonging to that period have been posted to the system, you can lock the period so that no additional postings can be made by any user.
- We click the link arrow for the period we want to lock. And change the period status from **Unlocked** to **Locked**.
- If we look at the first sub period of the current fiscal year, we see it is locked as well as all the sub periods in the previous year, except sub period 12.
- During the first periods of the new fiscal year you may need to make postings for the year-end closing of the previous fiscal year. This is why the last period of the old year (subperiod 12) has the status “Closing Period”.

- As well as *Unlocked* and *Locked*, you can set the period status to:
  - ***Unlocked Except Sales***. If a period has this status, authorized users can post any document or journal entry to the period except for documents from the Sales A/R menu.
  - ***Closing Period***. If a period has this status, only authorized people can post transactions to the period. The authorization "Period Status: Closing Period" is set using ***Administration → System Initialization → Authorizations → General Authorizations***. You can have the system automatically change the status to ***Closing Period*** by selecting the checkbox on the posting periods screen.
  - Sub-period 12 of the previous fiscal year and sub-period 2 of the current year have the status Closing Period.

## Summary



Here are some key points to take away:

You can run the *Period-End Closing* process at:

- The end of each sub-period and at the end of the main posting period (the Fiscal Year).
- Or at the end of the main posting period only (this will close all the sub-periods).

There are four tasks in period-end closing:

- Change the posting period status to *Closing* Period.
- Perform the year-end tasks, such as reconciliation.
- Use the period-end closing utility to close the period.
- Change the period status to *Locked*.

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Here are some key points to take away:

- You can run the Period-End Closing process at the end of each sub-period and the end of the main posting period (the Fiscal Year) or you can wait to run Period-End Closing until the end of the main posting period. This will close not only the main period but also all the sub-periods.
- There are four tasks in period-end closing: changing the posting period status to Closing period, performing the year-end tasks, such as reconciliation, using the period-end closing utility to close the period, and changing the period status to *Locked*.

## Summary

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The period-end closing utility will:

- Zero all Profit and Loss account balances to the Retained Earnings (a Balance Sheet account in the Capital and Reserves drawer).

Two journal entries are automatically created for each account:

- First - the system transfers the account balance from the Expense and the Revenue accounts to the *Period-End Closing* account on the last day of the period.
- Second - on the first day of the following posting period - the system transfers the balance from the Period-End Closing account to the Retained Earnings account.

You can set the period status to:

- Unlocked
  - Unlocked Except Sales
  - Period Closing
  - Locked
- 

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- The period-end closing utility will zero out the profit and loss account balances when they are transferred to the retained earnings account. The retained earnings account is a balance sheet account in the Capital and Reserves drawer.
- Two journal entries are automatically created for each account:
  - First the system transfers the account balance from the Expense and Revenue accounts to the Period-End Closing account on the last day of the period.
  - Second the system transfers the balance from the Period-End Closing account to the Retained Earnings account on the first day of the following posting period.
- You can set the period status to one of four statuses: Unlocked, Unlocked Except Sales, Period Closing and Locked.

## Thanks

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**You have completed the period end closing process topic  
Thank you for your time!**

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You have completed the period end closing process topic. Thank you for your time.