How to use Letter of Credit

1 Introduction
The aim of this topic is to provide an insight as to how to use Letter of Credit for managing the risk for receivables in Sales process. Letter of Credit (LC) is a form of payment guarantee to minimize the payment risk. The LC contains the payer’s order to the bank, instructing them to pay a sum to the recipient of the letter of credit by a certain time, or that this sum should be paid by the bank of the payee. The LC is therefore a reliable guarantee for both exporter and importer. The exporter has the assurance that the bank is liable for payment and the importer can expect the delivery to take place as normal. The LC is linked to the Sales Order to ensure that the Sales Order value does not go above the LC value.

2 System Configuration Settings for Letter of Credit

2.1 Settings in SPRO – Basic Settings
Sales & Distribution -> Foreign Trade/Customs -> Documentary Payments -> Basic settings
1. Define Financial Document Type
2. Define Bank Functions
3. Define Texts for Financial documents
4. Define Documents to be presented
5. Define Reasons for change
6. Define Indicators for Financial Documents
7. Define Bank Indicators

2.2 Settings in SPRO – Relationships
Sales & Distribution -> Foreign Trade / Customs -> Documentary Payments -> Relationships
1. Assign Documents to Financial Document Indicator
2. Specify Control Of Banks In Financial Document
3. Specify Financial Document Control

2.3 Settings in SPRO – Risk Management for Financial Documents
Sales & Distribution -> Foreign Trade/Customs -> Documentary Payments -> Risk Management for Financial Documents
1. Define Forms of Payment Guarantee
2. Define and Assign Payment Guarantee Schemas/Procedures
2.1 Define Payment Guarantee Schema/Procedure
2.2 Define Customer Determination Schema/Procedure
2.3 Define Document Determination Schema/Procedure
2.4 Assign Document Schema/Procedure to Order Types
2.5 Define Payment Guarantee Schema/Procedure Determination

3 Creation of Letter of Credit
3.1 Creation of Financial Document
The transaction used to create Financial document is shown.
SAP Easy Access -> Logistics -> Sales & Distribution -> Foreign Trade / Customs -> Payment Guarantee -> Documentary Payments -> Financial Document -> Create
VX11N
Financial document should be generated for attaching the LC with the sales order. This creates a document in Finance but does not do any postings in the ledger. This is purely used for the purpose of tracking and monitoring the letter of credit and does not affect the payments/collections.

4 How Letter of Credit is used in Sales Flow
4.1 Payer Master (optional)
XD02
We can assign Payment guarantee procedure in the Payer Customer master in Sales area data in Billing Tab.

4.2 Creation of Sales Document
Sales Order -> VA01, Billing -> VF01
We Created the Sales Order. In the Billing Document Tab of the sales item we can see the Risk Management in which Letter of credit is assigned.
in Payment guarantee procedure. Payment guarantee form is assigned as 01. We need to assign the Financial document no to this sales order.