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The Unique Challenges and Missed Opportunities of Capital-Intensive Companies

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The vast majority of businesses use the "build stuff, sell the stuff we build" model. With this approach, the income statement is dominated by expense-related items moving through the supply chain or the HR payroll systems. As a result, their focus is on honing the supply chain and human capital to improve efficiency.

To support this model, many companies turn to SAP Enterprise Asset Management (SAP EAM) and SAP Asset and Work Management systems, which manage the entire life cycle of physical assets and the work associated with them. Keeping assets humming allows companies to move a greater volume of sellable goods through the machine — and that means more things to sell at a lower production cost, which improves the bottom line.

These systems also naturally "talk" to the SAP ERP system, which, in very simple terms, counts the dollars associated with running a business. As work occurs, associated charges are routed to SAP ERP with settlement rules. For businesses with a "build stuff, then sell those products" model, those rules tend to be straightforward and are often static.

But that's not the case for capital-intensive businesses, such as those in the utility, oil and gas, mining, transportation, and telecommunications industries. These companies use the "build assets, then *rent* the resulting infrastructure to the public" model. The income statement for a capital-intensive company is dominated by expenses that flow through, arise out of, or are materially impacted by the balance sheet. As a result, these companies focus on optimizing the operational and financial performance of their assets. This model creates a new layer of business considerations unique to these capital-intensive companies.

Business Considerations for the Capital-Intensive Company

As mentioned above, EAM and ERP systems tend to "speak" to each other through the use of a settlement rule assigned to a job. The issues for capital-intensive companies are that:

- Every job is a unique mixture and can't be generalized under one settlement rule
- Any one job, project, or work order can create many assets and can be a mixture of capital expenditures, removal/demolition costs, and various expenses
- Each asset created can have a different depreciable life for book and tax purposes
- Property tax valuation rules are local in nature
- There may be thousands of jobs per year

With these factors in play, the simple approach of communicating job-related activities through the EAM system to correctly classify costs in the ERP system breaks down and becomes inefficient and inaccurate, eroding profit margins and causing compliance issues.

Let's consider one simple job: A state department of transportation (DOT) requests that a utility move a line. In just this one job, there are many considerations. Assets are created, others are retired. Contributions in aid of construction (CIAC) are booked as a contra-asset for book purposes, but not recognized for property tax purposes, and might be treated as revenue for income tax purposes. Some costs are allocated to removal; others to operations and maintenance. This one small job would require many settlement rules to correctly allocate costs to the income statement and balance sheet. Now multiply that by 10,000 or 100,000 jobs every year.

One approach to dealing with this is to create a work breakdown structure in the EAM system that reflects the many settlement rules required to properly book all the costs. However, it is hard enough to get field personnel to charge the right job. It's not very likely we could expect them to break down their actions along accounting lines.

Imagine the line person who goes out to the job. He moves the wire to a temporary pole, takes down the original pole, puts up a replacement pole, and moves the wire to the new pole. The correct accounting is to split time between the new asset, removal work, and miscellaneous expense. Instead of the line person filling

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out one line on his time card, he now is expected to fill out three. More often than not, the line person would simply assign all the dollars to the new asset. When removal/demolition costs go to the new asset, several things occur (and none of them are good):

- The cost of the new asset is higher
- Property taxes for the life of that asset will be higher
- Since removal is a current-period expense for income taxes, ignoring it means the company will pay more income taxes

EAM and work management systems can only do so much. They can't translate activity into an accurate and timely set of settlement rules that efficiently maintain the income statement and balance sheet compliantly or optimize the results to minimize income and property taxes. This would instead require a cradle-to-grave asset accounting software tool that sits between the existing EAM systems and the SAP ERP back end.

With PowerPlan Asset Accounting in place, the automation of complex processes and tax code calculations hums along in the background in sync with SAP ERP and SAP EAM.

Providing the Tools Capital-Intensive Companies Need to Overcome Their Challenges

PowerPlan provides asset accounting, income tax, property tax, and analytic software that specifically support industries that have more property, plant, and equipment on their balance sheets than they have revenue on their income statement. PowerPlan uniquely translates naturally present activities in EAM and work systems into precise and timely settlement rules so that:

- Operations personnel just have to know what job they are working on — they do not have to understand accounting or tax rules
- Accounting for capital and capital-related expense is more efficient and more accurate
- The results are compliant and better able to withstand audits
- Both property and income taxes are minimized

PowerPlan Asset Accounting software takes every action involved with a job and auto-generates the necessary settlement rules, essentially moving every dollar into its appropriate place in the asset ledger *without* requiring the involvement of field personnel. Since the software automatically makes these calculations, it ensures that each part of the project is given proper attribution. Similarly, with tax laws encouraging infrastructure investment, capital-intensive companies can often categorize asset investment as repairs on their books to realize current-year deductions. And capitalizing an item for book purposes does not necessarily capitalize it for tax purposes, which would instead provide a current-period deduction versus a deduction over the life of the asset.

In simple terms, customers can think of PowerPlan Asset Accounting as a balanced subledger to SAP systems. It pulls data from the SAP back end, automates the accounting processes and settlement rules behind the scenes, does the tax analysis and computations, then adds the results via PowerPlan's SAP-certified ERP Adapter.

PowerPlan frees companies from the time-consuming and error-prone task of tracking and evaluating how physical asset-related activity in an EAM affects the balance sheet. PowerPlan minimizes the tax interest capitalized, tracks tax repairs and repair allowance property, maximizes the tax loss by mechanically recognizing early retirements, and helps minimize income and property tax liabilities. This provides executives with complete asset transparency and the flexibility to accurately maneuver the financial levers essential for enabling a culture of cost management, improving cash flow, and realizing the full tax benefits across hundreds and thousands of projects and millions of assets.

PowerPlan in Action

The examples we've explored in this article are just a few illustrations of the complex calculations and projects that PowerPlan Asset Accounting handles out of the box. With this solution in place, the automation of complex processes and tax code calculations hums along in the background in sync with SAP ERP and SAP EAM, without a company having to add personnel.

This is especially important since asset-intensive companies often operate in several states and countries and could be subject to accounting regulations and policies from several regulatory bodies. Since PowerPlan ensures adherence to regulations, the chore of dealing with varying state, federal, or international regulations is taken out of the purview of field personnel — leaving them to do what they've been hired to do, which is to build and protect the company's physical assets.

This leaves the complex accounting, taxing, and budgeting processes in the hands of the experts at PowerPlan in the form of a fully integrated software suite that ensures both accuracy and simplicity. For more information, visit **www.powerplan.com**.