

Frequently asked questions: Asset accounting in SAP S/4HANA®

As utility and energy companies plan for and dive into their migrations to SAP S/4HANA®, stakeholders across finance, operations and IT are reevaluating their approach to asset accounting on the new platform. This scrutiny is often driven by typical “Phase 0” assessments to define migration scope but is also motivated by dissatisfaction with current asset accounting solutions running in SAP® ECC. Many utility and energy companies are questioning the high running costs of third-party asset accounting solutions external to their SAP ERP. Their upcoming transformations to S/4HANA are raising interest in understanding alternative ways of managing asset accounting in S/4HANA while also controlling long-term costs.

The team at Cognizant has optimized asset accounting on the SAP ERP for decades.¹ Based on this expertise, we’ve prepared this document to address some of the most pressing questions utility and energy companies are raising. This FAQ provides guidance on S/4HANA’s impact on asset accounting and how utility and energy companies can improve their processes and results.

Frequently asked questions

FAQ 1: What options do we have for asset accounting on S/4HANA?

Utility and energy companies have four common options for asset accounting on S/4HANA:

1. Run the standard SAP Asset Accounting (FI-AA) module
2. Develop a homegrown solution using custom code in S/4HANA and/or external tools such as Microsoft Excel
3. Use a third-party solution that runs outside SAP and requires interfaces to move data to/from S/4HANA
4. Run an SAP-certified asset accounting solution that resides directly in S/4HANA and does not require interfaces

¹Cognizant acquired Utegration in 2022, a company that specialized in this.

FAQ 2: What are the capabilities and limitations of SAP's FI-AA, and how does S/4HANA impact it?

The SAP Asset Accounting module (FI-AA) is a longstanding solution for fixed asset accounting in the SAP ERP. It provides robust yet basic capabilities for companies with modest requirements around group assets and depreciation.

FI-AA is now integrated with the Universal Journal in S/4HANA, offering greater transparency and simplified reporting since asset accounting transaction data is now in the general ledger instead of a separate, disconnected subledger. In addition, SAP HANA's in-memory processing easily handles the large data volumes of asset-intensive organizations.

For asset-intensive companies, FI-AA does have some inherent limitations. For example, it is not very flexible regarding when an asset's depreciation can start, numerous manual steps are required to move an asset through its lifecycle, and it provides limited flexibility to unitize multiple assets on a single project.

In addition, SAP FI-AA has some other limitations for utility and energy companies. It does not easily support the Handy-Whitman Index or Iowa Curve retirements. And while it currently accommodates group depreciation, support for this feature will be phased out by SAP by December 2025.

As such, FI-AA alone is not a long-term viable solution for utility and energy companies on S/4HANA.

FAQ 3: What is SAP Asset Lifecycle Accounting (ALA)?

Building on the capabilities of FI-AA, SAP invested in enhancing asset accounting functionality through a custom development package known as Asset Lifecycle Accounting (ALA). This solution was adopted by only two companies, was never included with the core ERP and was subsequently discontinued.

To fill the resulting functionality gap, SAP has looked to partners to develop specialized accounting solutions for asset-intensive industries, which Cognizant has accomplished through our Finance4U® suite of packaged software that is certified by SAP as integrated with S/4HANA.

FAQ 4: What are the capabilities and limitations of a third-party, external asset accounting solution?

Utility and energy companies that currently run a third-party asset accounting solution interfaced with SAP ECC are evaluating the pros and cons of continuing to use it on S/4HANA. This solution provides an asset accounting subledger and the functionality for asset accounting tasks and reports. Since this solution runs outside of SAP, it provides flexibility to be modified for each organization's particular needs.

The flip side of running outside the ERP and being highly flexible presents several drawbacks. First, the external asset accounting solution requires its own separate hardware, operating system, database and integration layers from SAP—and the staff to maintain that infrastructure.

Second, the current level of data transparency between the external solution and SAP is insufficient. This inadequacy necessitates significant effort in data mining, table merging, validation, latency management, compliance risk mitigation and reconciliation. These steps are essential to ensure that users of both the external solution and the ERP have the necessary information to perform their tasks efficiently.

Third, because the solution is not constrained by the referential integrity of SAP ERP, it is often customized extensively—and differently—for each customer. It is effectively not packaged software but rather a custom solution that requires special handling for both initial installation and subsequent upgrades. Most of the required technical and functional work must be performed by the software vendor itself because customers are not trained to manage the solution themselves.

As a result of these limitations, the total cost of ownership (TCO) of the third-party's external asset accounting solution is very high. This becomes even more evident when utility and energy companies study the actual costs of migrating it to S/4HANA.

FAQ 5: What happens to our third-party asset accounting solution when we migrate to S/4HANA?

Due to S/4HANA's extensive innovations—including simplified financial tables and the Universal Journal—the third-party external asset accounting solution must often be reimplemented. It is not as straightforward as simply reworking existing interfaces. In addition, complex, costly and new system architecture tools are needed to support the interfaces from the third-party solution to S/4HANA.

Prior to undertaking this significant project, utility and energy companies should evaluate the costs of all software, hardware and services required.

FAQ 6: How do we reduce or eliminate reconciliation issues between our external asset accounting solution subledger and the general ledger book of record in S/4HANA?

These challenges persist in S/4HANA, and the only viable resolution is to replace the third-party solution with an asset accounting solution that runs inside SAP.

FAQ 7: What asset accounting capabilities and attributes should we expect from our S/4HANA system?

Utility and energy companies can extend SAP's landscape with a fit-to-standard fixed asset accounting solution that runs directly inside S/4HANA. This is the best way to take full advantage of the Universal Journal and reduce the total cost of ownership for fixed asset accounting.

Within this context, the ideal asset accounting solution on S/4HANA should have the following capabilities:

- Support a simple migration from SAP ECC with no SAP Landscape Transformation Replication Server (SLT) layer required for integration, and be easily upgraded as SAP offers new releases of S/4HANA
- Provide configurable functionality to support group depreciation, early depreciation, depreciation-in-service, curve base retirement and unitization of multiple assets
- Deliver comprehensive asset data transparency in SAP for the entire asset lifecycle including labor, material, services, AFUDC and other costs
- Establish the asset accounting subledger as part of the general ledger so that asset accounting transactions are systematically populated in the G/L as they are entered in S/4HANA
- Eliminate the need for data reconciliation, manual corrections to settlement and other recurring processes, and batch jobs to integrate third-party external solutions

- Reduce reliance on topside journal entries that lose valuable data granularity and make responding to SOX audits and regulatory interrogatories difficult
- Enable analysts and management to focus on exceptions, thereby saving time and increasing productivity
- Include complete and accurate documentation that enables internal users to configure the solution independently as new business needs emerge, thereby building valuable institutional knowledge and independence, and limiting the need for outside consulting resources only for special projects rather than those embedded in day-to-day operations

If this ideal asset accounting solution in S/4HANA sounds like a proverbial unicorn, rest assured it is not. Since the release of SAP S/4HANA in 2015, Cognizant has worked extensively to develop technology that closes the gap between SAP's standard functionality and what utility and energy companies need to manage asset accounting without resorting to a costly interfaced solution.² Our product, Finance4U® Extended Asset Accounting is certified by SAP and has a US patent³. It first went into client production in 2019 and is running successfully in several energy and utility companies that have migrated to S/4HANA.

Finance4U Extended Asset Accounting goes even further than simply meeting the asset accounting capabilities outlined above. Bigger picture, it provides greater organizational access to and understanding of asset accounting data, end-to-end across departments. This establishes a less siloed view of data and enables diverse stakeholders to communicate with one another more effectively.

By bringing asset accounting processes into the ERP, its data is no longer held closely by a single group and then handed off on request to other users. Rather, asset accounting analysis and action become more accessible and supports greater collaboration throughout the organization.

To discuss your specific asset accounting objectives, and to learn more about how we've helped other utility and energy companies optimize accounting on S/4HANA, please **contact us** online and we'll respond to you promptly.

² Cognizant acquired Utegration in 2022.
³ Patent No.: US 12,210,531 B2



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